EFFECTIVENESS OF THE DAIRY TERMINATION PROGRAM AND THE DAIRY SECTION OF THE FOOD SECURITY ACT OF 1985

HEARINGS

BEFORE THE

SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

OCTOBER 3, 1987, MELROSE, MN, AND
NOVEMBER 2, 1987, WESTMINSTER, MD

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[1] Resigned October 21, 1987.

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EFFECTIVENESS OF THE DAIRY TERMINATION PROGRAM AND THE DAIRY SECTION OF THE FOOD SECURITY ACT OF 1985

SATURDAY, OCTOBER 3, 1987

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Melrose, MN.

The subcommittee met, pursuant to notice, at 9:30 a.m., in the cafeteria of the Melrose Senior High School, Melrose, MN, Hon. Charles W. Stenholm (chairman of the subcommittee) presiding.

Present: Representative Stangeland.

Also present: Representative Penny, member of the committee.

Staff present: Daniel B. Waggoner and Paulette Zakrzeski.

OPENING STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. This public hearing of the House Agriculture Subcommittee on Livestock, Dairy, and Poultry will now come to order.

Good morning to each and every one of you. I am Charlie Stenholm of the Seventeenth Congressional District of Texas. I have the privilege of serving as the chairman of the Livestock, Dairy, and Poultry Subcommittee. It is my pleasure to welcome each and every one of you to today's hearing.

This subcommittee looks forward to receiving testimony and written statements focused upon the effectiveness of the Dairy Termination Program and the dairy section of the 1985 farm bill.

On my left I am sure you recognize my colleague and your Congressman from the Seventh District of Minnesota, Arlan Stangeland. Arlan, the subcommittee would like to extend our gratitude to you for inviting us to Minnesota in order that we may have a firsthand opportunity to hear from your constituents in this vital dairy producing area of the United States. I have always recognized the importance of coming out into the country to hear from producers. Therefore, Arlan, we are grateful to you for your leadership in seeing that we could be here and for being such a delightful host.

On my right I am sure most of you also recognize another distinguished member of the House Agriculture Committee from the great State of Minnesota, from the First District, Tim Penny. We are real pleased, Tim, that you could be here, and we will recognize you in just a moment for opening comments.

As I mentioned, field hearings are vitally important to the work of our subcommittee; in fact, to the work of our entire service in the country. We all three carry the title of "Representative" and it is important, if you are to represent your elected constituency, to hear from them. It also is much less expensive for us to come here than it is for all of you to come to Washington, D.C., for this opportunity.

As I am sure most of us remember, prior to the 1985 farm bill the dairy industry was filled with a lot of uncertainty. Milk production was increasing at an unprecedented rate of 8 percent per month over the previous year and showed no signs of decreasing. Commodity Credit Corporation purchases of dairy products were mounting at an unacceptable pace. However, today the situation is much improved. I will be the first to admit the 1985 farm bill is not perfect. It certainly has not solved all of the problems we are facing in some areas of agriculture, but the law has produced some progress, including welcomed improvement in the dairy area.

For example, the dairy termination program has generated some positive effects by helping reduce milk surpluses and government costs in the termination or export of dairy cattle. However, it is important to keep in mind that the whole herd buyout program should not be viewed as a solution of and by itself, but as the best short term policy tool that could be put together, given the adverse interests and regional differences involved. Serving as chairman of the Livestock, Dairy, and Poultry Subcommittee I have become keenly aware of the diversity of the dairy industry across this country and of the particular viewpoints regarding the future direction of dairy policy. Yet, I cannot emphasize enough how important it is that the dairy industry and all dairy farmers be united if the agricultural community on Capitol Hill is to use all of its influence to maintain a sound national dairy policy.

With that challenge before us, I look forward to listening to all the concerns and advice through this morning's hearing.

I would now like to recognize our colleague from the First District, Mr. Tim Penny, for any opening remarks that you might like to make.

OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Penny. Thank you, Charlie. I really do appreciate your coming to Minnesota to listen to the concerns of farmers up in our part of the country, and I am pleased to be able to travel to Arlan's district this morning to join with you for this hearing.

As you mentioned, I have other commitments, and in addition to other activities I have a wedding that I have to get back for. So if I leave before the testimony is complete I hope you will understand. But I do have all the written testimony and I will certainly be reviewing that.

We have a number of issues that are important to the dairy industry right now, and among those is, where do we go from here? We also had some concern about the treatment of wet corn. I think that is being resolved. So I look forward to the testimony from the farmers up this way.

Arlan and I are proud to have the opportunity to serve on the Agriculture Committee to represent Minnesota's interests, and when it comes to farm policy, we see eye to eye for the most part. And I thnk that is important because those of us that represent rural concerns have to keep working together in order to promote those concerns. Rural legislators are a small minority in the Congress and if we are divided among ourselves it means we cannot get an awful lot done. So we rural legislators try to stick together, and we like to see our farm groups stick together as much as possible because if that is achieved we can get the best possible policy adopted.

So, I am glad to be here in your district, Arlan, and look forward to hearing from your constituents on these important issues.

Mr. STENHOLM. Now I would like to recognize Arlan for any opening remarks you might have to make, and also any special introductions you might want to make.

OPENING STATEMENT OF HON. ARLAN STANGELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. STANGELAND. Thank you very much, Mr. Chairman. First of all I want to welcome the audience here today and thank you very much for bringing this hearing out to the Seventh District of Minnesota in Melrose. You, like I and our friend Tim Penny as well, realize that too seldom do we get to hear from the people who are affected by the laws that we pass as a formal committee. We hear a lot of lobbyists in Washington testifying before our hearings there, but a lot of these folks cannot afford to come to Washington to talk to the committee out there, and I want to thank you very much for bringing the committee here to Melrose. Just a few words for the benefit of the audience. Charley Stenholm and I have been very, very close friends for a good number of years. I guess it goes back about eight now, Charley. As he said, I have twice been to his district in Texas to hear from the problems of Texas farmers. He has been here once before; this is the second time. Charley is extremely well respected because he has been a farmer and is still a practicing farmer in Texas. But he is also respected for being a hard worker.

We are going to be working on a major revision of the Farm Credit System, hopefully, on Tuesday, I am not sure what that schedule is—that schedule changes from day to day. However, Congressman Stenholm was one of the major authors of a major amendment to the Farm Credit System bill. But because of your knowledge of agriculture and your sensitivity to the problems of agriculture, Charley, it is really good to have you up here.

We chose Melrose because this sits in the heart of one of the largest dairy counties in the United States, Stearns County. Dairying here is extremely important to the farm economy, to the small towns economy, to the economy of the businessmen on Main Street. And the Seventh Congressional District is the fifth largest district in dairy production in the United States, and so I think it is very important that we do have a hearing here where these dairy farmers can tell you specifically what they think is good, bad, or indif-

ferent about this dairy program, and maybe get some insight from you as to what the future might hold.

I would like unanimous consent to make my full statement part of the record.

[The prepared statement of Mr. Stangeland follows:]

STATEMENT OF CONGRESSMAN ARLAN STANGELAND
SUBCOMMITTEE ON DAIRY, LIVESTOCK AND POULTRY
HEARING
MELROSE, MINNESOTA
OCTOBER 3, 1987

Good morning. We are here to conduct an oversight hearing on issues relating to the dairy program, including one of the most visible programs, the Dairy Termination Program, or what is commonly called the whole heart buy-out.

I am very pleased that my good friend, Congressman Charlie Stenholm, agreed to hold this hearing in Melrose. Well-known in Congress as a hard worker with a strong agricultural background, he is highly respected for his knowledge on all agricultural issues and programs. As the popular chairman of the Subcommittee on Dairy, Livestock and Poultry, he has a reputation for being able to get things done, and for being committeed to developing workable and reasonable agricultural policy. I have known him for many years and have the utmost respect for his ability, judgement, and dedication in devising programs and legislation for the American farmer and I would like to thank him again for joining us today in Melrose, Minnesota.

I also welcome my esteemed colleague, Congressman Tim Penny. As a fellow Minnesotan with many dairy farmers in his district, I

know that he, too, shares my concerns regarding dairy farming and the dairy program. Welcome Tim.

Melrose was chosen because many dairy farms are located here and in the surrounding area. In addition, the farmers are directly involved in the current dairy program. Dairy farms, dairy farmers, and dairy production, are very important to the area and the state of Minnesota. It ranks fifth in the nation in dairy production. In addition, nationwide, dairy products are one of the most important sources of agricultural income, accounting for 13% of total farm cash receipts. Some forty states rank milk products among their top five cash-generating agricultural commodities.

Because of the significance of the dairy program to the farmers in Minnesota, it is important that as the Dairy Termination Program ends, we sit down with those who have been most directly affected by it, and try to determine the next step in making the dairy program a success. We also intend to listen to, and evaluate, any other concerns that Minnesota dairy farmers may have involving the basic dairy program.

In evaluating the whole herd buy-out the United States Department of Agriculture has predicted that production will decline to approximately 141 billion pounds for the 1986-1987 marketing year, which is much less than the prior marketing year of over 145 billion pounds. The Department expects this drop in

production, along with a projected increase in commercial use, to cut in half the Commodity Credit Corporation acquisitions of surplus dairy products for the 1986-1987 marketing year. However, whether production will continue at this level is highly questionable. If there is a significant increase, the present dairy program is designed to trigger a support price cut.

Statistics compiled by the National Milk Producers Federation show that significant increases in production have taken place in several western states, with California leading with close to a 10% increase over the previous year's production. Minnesota farmers, on the other hand, are producing at slightly lower levels than last year. Farmers have contacted me with concerns about the effectiveness of the DTP. Their main concerns center around the possibility of future cuts in support price. This may occur if there is a substantial increase in production or because of the recent revised Gramm-Rudman deficit reduction legislation which was just signed by the President. Unique and innovative ideas for the present dairy programs have been surfacing in Washington from all sectors with agricultural interests, but the most important people involved in the program are the actual producers, and that is why we are here. We need to hear from the farmers back home who live with the program on a day-to-day basis. In my opinion, they have the qualifications to give us a fair evaluation of the present program and the direction that should be taken in order to insure an efficient and effective dairy program.

Also, joining us today will be experts from government, industry and academia. I welcome them and look forward to their testimony. Thank you.

Mr. STANGELAND. At this time I would like to call on, for just a few brief opening remarks, the local State representative here, Sylvester Uphus. So Sylvester, if you would like to just say a few words, you would be welcome at this time, out of order.

STATEMENT OF SYLVESTER UPHUS, REPRESENTATIVE, MINNESOTA STATE LEGISLATURE

Mr. UPHUS. Thank you, Congressman. Thank you, Congressman Stenholm, Congressman Penny, Congressman Stangeland, our Congressman, for making the extra special effort to come here today when I know all of you have other things that you would probably rather be doing.

I know that we have the opening of our waterfowl season today and this may be a bit of a conflict, but I think as far as farmers today, it is a beautiful day for harvesting beans and corn, and talking about corn, at the present time Stearns County has more acres of corn than any other county in the State of Minnesota. We are the No. 1 dairy county in the State. We are first in feeder pig production and second in turkeys, and we also raise some tobacco here. So it is a very, very important district for agriculture.

We are so happy that you people came here today to listen to our concerns. It reminds me a little bit of our minisessions that we on the State level are doing today. We are going out to the people, and here to listen. You are here to listen, like the Congressman stated earlier and I think this is so important.

The people here today, I am sure they are well informed and will certainly give you some insight. And the questions that I hear mostly is, what is going to happen in the future? I am sure that you have a crystal ball and are going to tell us exactly how we should proceed as far as agriculture is concerned.

With that I would probably like to have everyone just give you a great round of applause saying, "Thank you for coming to Melrose."

[Applause.]

Mr. STANGELAND. Thank you, Mr. Chairman. I will turn the meeting back to you now. Thank you.

Mr. STENHOLM. Before we call our first witness, I want to make some announcements. In order that all of our witnesses be afforded an equal opportunity to present their testimony, the Chair would respectfully ask that all witnesses summarize their remarks so as to be no longer than 5 minutes in length.

In addition, if there is no objection today's hearing record will remain open for 10 days for the purpose of receiving additional and requested written information. Furthermore, we hope to have a couple of minutes after the conclusion of the last scheduled witness to receive any comments or questions from anyone in the audience. So keep that in mind. If you are not on the official witness list, we will spend some time at the end for purposes of getting additional testimony, comments, and questions from the audience.

If there are no further questions we will proceed with our first witness this morning. I will call for Mr. Darwin Carter, the Assistant to the Administrator of ASCS, Washington, D.C. Darwin.

As Darwin takes his place at the table I would like to welcome you, Darwin, again before this committee. Darwin was the man in charge of running the Dairy Termination Program and as I have stated many times, it had a little rocky start. However, I would say that in the chairman's opinion, and I believe shared by both of my colleagues, that Darwin did a yeoman's job in carrying out a very difficult program.

Darwin, welcome to the subcommittee hearing here in Melrose.

STATEMENT OF J. DARWIN CARTER, ASSISTANT TO THE ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Carter. Thank you, Mr. Chairman, Congressman Stangeland, Congressman Penny. It is a pleasure to be here with you today with all the dairy farmers and citizens of this area. I appreciate the opportunity to visit your State. It is beautiful.

Mr. Chairman and members of the subcommittee, my name is James Darwin Carter. I am happy to appear before you today to review the status of the Dairy Termination Program

In brief, the DTP currently has worked about as well as we expected. The DTP cattle have been slaughtered or exported. Milk production has been down, CCC purchases of dairy products have been below a year earlier. Milk prices have been above the support level and the meat purchases required to be made to minimize the effect of the DTP have in general been on schedule.

Milk production in fiscal year 1986 totaled 145.6 billion pounds, 3.9 percent above fiscal year 1985. However, much of that increase came during the first half of that fiscal year before the beginning of the Dairy Termination Program. Since then production has dropped through July, and production in fiscal year 1987 likely will be about 3 percent below 1986.

The chart that I have included in my testimony bears out those statements just made.

The number of milk cows in the United States on June 1, 1987, totaled 10,400,000, which is a record low. The nation's dairy herd has been reduced by 1.5 million head of cows, heifers, and calves, as a result of the Dairy Termination Program, a program which has partially been funded by the dairy producers themselves.

Heifers for milk cow replacements totaled 4,500,000, down 100,000 from a year earlier. This is a ratio of 43.3 heifers per 100 cows. While this ratio is up from 42.2 on June 1, 1986, it is below the ratio of 44.5 which appeared on June 1, 1985. Replacements, however, are sufficient to result in expanded production in the months or years ahead.

Even after adjusting for seasonal variations in milk production CCC purchases of dairy products have dropped and milk prices have increased as a result of the Dairy Termination Program. Manufacturing-grade milk prices during October to December, 1986, averaged $11.89 per 100 lb., 29 cents above the $11.60 support price. In January-March 1987, the price averaged $11.48, 13 cents above the current $11.35 support price. In April to June, 1887, which were the months of the greatest milk production, the price averaged $11.18 per 100 lb. and that was 17 cents above the support

price. But the July-August average was $11.34, indicating a strong increase in the months of shorter supplies.

CCC purchases of dairy products during the first 11 months, those months of October, 1986, through August 28, 1987, of this fiscal year have totaled about 5.1 billion lb. milk-equivalent, compared with 12.1 billion lb. during the same period a year earlier. Purchases totaled 12.3 million lb. in fiscal year 1986, and we are now thinking they likely will total about 5.3 billion lb. for the fiscal year 1987. And I emphasize the fiscal 1987.

Milk production levels and CCC purchases during the remainder of the 1985 Food Security Act will depend upon the decisions made by dairy farmers.

Mr. Chairman, this concludes my statement, and now I will be happy to respond to any questions that the committee members would like to pose.

[The prepared statement of Mr. Carter appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Carter. Mr. Penny.

Mr. PENNY. I have no questions at this time. I think the statistics speak for themselves and it may be that the farmers that testify later will want to react to those statistics and interpret them for us so we can kind of sort out just where we are headed in the future.

I would like to think that we are going to stay on this trend but there is some reason to believe that we might see an increased production level again, and whether we can offset that with marketing is yet to be seen. I hope that we can do that.

Mr. STENHOLM. Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman. Thank you, Mr. Carter, for coming to the Seventh District of Minnesota. I want to add my welcome and appreciation for your effort as far as being the technician of this Dairy Termination Program. You were very amenable to working with the committee to help get the bugs out.

I guess the only question that I have is, can you track at all increased consumption? Because the way it looks here, there appears to be some increase in production over and above the Dairy Termination Program. Are we seeing any increased consumption because of the promotion program we have in effect, and does that trend look like it can absorb some of that increase in production that is going to be coming?

Mr. CARTER. Well, we feel that while the production is up, you have to really do, I would say, on that basis, a market survey type of thing, and that is a very difficult number to get a handle upon, though, Congressman.

Naturally, on a per capita basis you would say, yet, there should be increased consumption. Milk is a very good buy, even at today's prices. It is still the best buy that I know. Its price has increased but increased at a ratio which is certainly well within the budgets of the American consumer, and I feel that even though we do have some increase in the production that it should be offset by additional consumption. But I have no hard figures to give you a tracking of that.

Generally—and this is the unfortunate part of much of what the economists do; we always come in behind the curve, so to speak. That gives us a good history but not much future to project upon.

But I do not think at this point that we have a major problem in the consumption of the additional production. However, we got this milk production down through the DTP. If it is to work, on a long-range basis, it is in the hands of dairymen and in the hands of the industry to make those decisions. Now, in addition to being the Washington bureaucrat, sir, I am also a farmer, before I came into this role. And I understand the ratio of feed prices and the prices of milk and individual situation that farmers must make themselves, because interest rates, principal payments, Federal land banks, PCAs, private sector banks; I understand all those obligations that are on the backs of the American farmer today.

While we have brought interest rates down, and we have things in a more favorable light, still the American farmer, whether he is producing grain, producing beef, producing milk, he needs all the income and the net profit from that farm he can get. But at the same time, I have to say in the same breath, we must make certain that we keep the production under control so that the production and consumption is in some ratio.

Mr. STANGELAND. Thank you very much. Thank you, Mr. Chairman.

Mr. STENHOLM. Darwin, you said, "a program partially funded by dairy producers." What was the cost of the Dairy Termination Program and what percentage of it was paid for by dairy producers?

Mr. CARTER. I will take that in a reverse order in answering the question, sir. The total cost of the program, the termination payments, I would like to just run through the list so that it would be expressed on the record. The termination payments that went out to the producers was—I will round these numbers off—was $1.8 billion. The assessments which came from—now, let me first, I must go back, sir, and qualify one thing.

That number, $1.8 billion, and the numbers which I will give you, are fiscal year 1986 actual numbers, because we have a record on that. That is what we have actually spent, plus the projection through 1991 of the balance of the payments that we will remit to the producers during the 5-year period.

So there is, in these numbers, there are some actual fiscal year 1986 actual and fiscal year 1987 through 1991 will be estimates; $1.8 billion on termination payments. Assessments, which is a portion that the dairy producers themselves have funded to pay for this program, is $737 million. The red meat program, to offset the effects on the red meat market, we have spent, and for the most part we have actuals there; 1987 and 1988 are estimated, but we have actuals on 1986. Purchases of red meat were $475 million. Storage handling, $29 million. Transportation was $9 million. And then the sales proceeds, which were the foreign sales to the governments of Brazil, Argentina, Mexico, Venezuela, totalled $77 million. For the total red meat program cost, $436 million.

When you take all those numbers, the $1.8 billion for termination payments, the assessments which the dairymen themselves paid for in the assessment on the hundredweights of milk of $737, and then add the cost of the red meat program, our best estimate is $1,513 million, as an actual cost after backing out the assessments.

Mr. STENHOLM. You gave the heifer numbers, and you expressed—rightfully so—some concern that we have replacements

ready for production that can in fact contribute to milk surpluses. Do you have any figures with you as to what the heifer ratio is today and prior to 1985?

Mr. CARTER. No, Mr. Chairman, I do not.

Mr. STENHOLM. I would, for the record, like to emphasize the net outlays from the Commodity Credit Corporation for the cost of operating the Milk Price Support Program. We had a peak cost in 1982 and 1983 of $2.5 billion; in 1983–1984 it was $1.5; in 1984–1985, it was $2.1 billion; 1985–1986, $2.3 billion; 1986–1987, current estimate for that period is $1.2 billion; 1987–1988, is $893 million. So from the standpoint of the overall success of the program in gaining control of the budget costs of the dairy program, I know at least three Members of Congress that are very happy to see the budget cost projections of the Dairy Price Support Program moving down into a more favorable area.

Darwin, thank you very much. We appreciate you taking time to come and be with us today and being available to answer any of the questions we might have before us today. We thank you for your attendance.

Mr. CARTER. Thank you, Mr. Chairman, and Congressman Penny and Congressman Stangeland, again, again, it is the first opportunity I have had to visit your state, and it is beautiful. And I appreciate your arranging this weather for us.

Mr. STANGELAND. Even that cold morning?

Mr. CARTER. Yes.

Mr. STENHOLM. I would like to call next, State Representative Steve Wenzel, Minnesota House of Representatives, chairman of the House Agriculture Committee, testimony presented by State Representative Jeff Bertram.

STATEMENT OF STEVE WENZEL, REPRESENTATIVE, MINNESOTA STATE LEGISLATURE, CHAIRMAN, HOUSE AGRICULTURE COMMITTEE, PRESENTED BY JEFF N. BERTRAM, STATE REPRESENTATIVE

Mr. BERTRAM. Thank you, Mr. Chairman. First of all I would like to say thank you to Congressman Stangeland and to Congressman Stenholm for having this meeting and for Congressman Penny to make an appearance as well before this committee.

I am proud to be here 10 years later under a different circumstance. Ten years ago I graduated here in Melrose Senior High School, and certainly 10 years later I am proud to be a member of the Minnesota House Agriculture Committee and a member of the Dairy Subcommittee as well.

I am also here today as a State representative from District 16–B, and as a farmer who farms with his father Clarence and his brother Joel in Springhill Township.

I certainly appreciate that you had this hearing in the central part of Minnesota, in Stearns County, the county, of course, that is first in Minnesota dairy production. There are 18,500 dairy farmers in our State and we are grateful that you took this time to take this testimony.

As you indicated, Mr. Chairman, unfortunately Representative Steve Wenzel who is chairman of the Agriculture Committee could

not be here today and he asked me to paraphrase some of his statements and comments that he would like to share with you.

Our purpose in coming before you today is to strongly urge you to adopt Federal policy towards dairy farms that seeks to help them stay in business and in the process help this country to continue to be the greatest producer of food on Earth. Your decisions have determined and will continue to determine the survivability of the independent family farmer owner and operator.

Farming is more than just a job. It is an ongoing testimony to the value of hard work, healthy living, and high moral standards. We urge your careful consideration of the following measures to assure that the Minnesota dairy farmers will survive as family farms, providing the State and the nation a highly nutritious, reasonably priced, component of the American diet.

Before I make my recommendations, I and some of the Agriculture Committee members want to point out that there are several unique aspects of the Midwest and Minnesota dairy farmers.

As you well know, milk production costs, first of all, in Minnesota and in the upper Midwest are inherently higher than in the South or Far West. Dairy stock require expensive shelter and increased feed to survive our rigorous winter climate. Costs for these items are not compensated by a differential support price for milk produced by Midwest dairymen.

Secondly, the vast majority of Minnesota and Midwest dairy operators are family farmers. As such they cannot realize the economics of scale available to huge corporate dairies located in the West and South, and family farming has become and continues to be a way of life and livelihood that in our opinion needs and deserves support and continued encouragement.

Thirdly, many dairy farmers in the Midwest simply will not be able to remain in operation if they are faced with continued and further reductions in the support price of milk.

Our recommendations are as follows. First of all, the Federal Commodity Credit Corporation, the CCC, should continue to act as a purchaser of last resort of butter, cheese, and nonfat dry milk powders. This action controls dairy product flow to the market and prevents serious price dislocations for both producer and consumer. The price paid by the CCC should remain reasonable and more stable. Support prices must not be reduced further, in our opinion. Support levels were lowered, as you well know and as we know as farmers here today, on Thursday of this past week.

There is absolutely in our opinion no need or justification for the possible further reductions of the 50 cent/cwt. schedule for January 1, of 1988, 1989, and 1990.

We cannot express strongly enough our belief that you as Congressmen on the Dairy Subcommittee must spearhead and drive to block and reverse these proposed cuts. If the dairy products stocks held by the CCC reach excessive levels the excess should be distributed in such a way that it does not exert downward pressure on the market price of fluid milk or processed dairy products.

Possible uses for the CCC surplus stocks might include greater foreign food aid, school lunch programs, and commodity giveaway programs for proverty level Americans.

Secondly, our recommendation is that large corporate dairy farms should be excluded from all Federal dairy assistance and support programs. A reasonable method for eliminating assistance to inappropriate producers would be to cap Federal dairy supports for any one dairy unit to the level needed to profitably maintain a dairy herd of approximately 50 head or to generate $50,000 per year of operation per family unit.

Thirdly, the regional grade A price differential should be eliminated immediately except in those few cases where local fluid milk production cuts are extremely high and the local demand for food milk could not be met without price gouging. In fact, the whole concept of Federal milk marketing orders should be reexamined in our opinion in the light of economic efficiency and equity for traditional dairy farming regions of the nation.

Mr. Chairman and members of the subcommittee, I would also urge this committee and the Congress to be more aggressive to pursue export policies for dairy products for distribution throughout the world. It can be done, and it has started to be done in some instances, and we certainly hope that it continues.

The expressed concern for the rise in government purchases and storage of dairy products seems not a valid one when you consider the enormous numbers of starving people in the world, and hungry people in this country. This country, which has a wealth of food products, could help alleviate such suffering, develop more export markets for agricultural products, and gain influence in the Third World.

We hope that this subcommittee will also report out legislation banning casein imports on foreign dairy products, which would guarantee that such imports would not place our nation's dairy farmers at a competitive disadvantage. What we need today is a new export policy to be in place for United States dairy products.

The government has done this for other products, and we believe should construct an export program for American dairy products as well. This can be done in the cooperation of the Commerce Department, the State Department, Defense Department, Education Department, in cooperation with the Department of Agriculture, in the implementation of such export policies of dairy products.

We certainly are concerned that the American dairy farmers and our own people are denied the access to 4 billion people in the world who live in needy areas.

Fifthly, as you are well aware, funding for the school lunch program and the school milk programs have been severely cut in recent years. We in this State in this past session implemented a program to substitute for some of those cuts, but we hope that your committee will lead the charge to restore full funding to the essential program of child nutrition. We feel that milk should be equally available to all children in every public and nonpublic school. We certainly believe that the consumption and increased availability of milk in our nation's school is a natural market for a dairy farmer.

Lastly, the Federal whole-herd buyout which you have just discussed certainly is behind us, and I am sure the debate will go on for a long time whether it was advantageous or disadvantageous, but certainly I think we need to look to the future. Our concern and the concern of Representative Wenzel is that in the course of

1981 former U.S. Agriculture Secretary pushed for and received legislation repeating the 6-month semiannual adjustment.

In 1981 the U.S. 4-year farm bill further reduced price supports for the dairy farmer, guaranteeing that dairy farmers would receive no increased income for the next 4 years.

In addition, it is our concern that the budget resolution to put on the 50-cent milk tax in the Budget Act of July 1981, reduced the Federal milk subsidy in Federal school programs which has resulted in some reduction of milk consumption in our nation's schools.

Certainly it is with great interest that we in the State and you in Washington, D.C., cooperate and work with us, so that we can continue to provide a way of life for the family farmer of Minnesota and of people across this country.

Again I want to thank you, Congressman Stenholm, Congressman Penny, and Congressman Stangeland for coming here today, and I certainly look forward to working with you in the years ahead to accomplish some of our mutual goals.

Thank you.

[The prepared statement of Mr. Wenzel appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Bertram. Mr. Penny, any questions?

Mr. PENNY. Thank you, Mr. Chairman. Jeff, I appreciate your testimony this morning. Your views about family agriculture and dairy policy track very well with my own. In particular, I share your concern about more aggressive marketing and a higher utilization of surplus commodities, whether they be dairy or other farm commodities in food distribution programs.

We have since 1981 done a great deal to restore distribution levels to the needy here at home, to school lunch programs, to senior citizen nutrition programs, and others, and we are certainly looking for ways to broaden the availability of these surplus commodities in food aid programs overseas as well.

In addition to the Ag Committee I serve on the Hunger Committee, and so it gives me a chance to advocate some of the policies that you have requested here this morning.

Last but not least, I want to commend you for the recommendation on targeting the dairy program. That is not something that is probably going to happen in the near term, but I think as we look toward writing another farm bill a couple of years down the road, capping the amount of production that we cover in commodity programs is something that I think is a worthwhile objection. It would put then the focus of price support on small and mid-size operators and it seems to me that that is the only justification for a policy. The larger producers ought to take the greater risk and price protection ought to be targeted at that first level of production, assisting more so the family operator.

So you are preaching to the choir this morning, and I appreciate your being here.

Mr. STENHOLM. Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman. I do want to welcome you, Mr. Bertram, and would appreciate it very much if you would extend my regards to Steve Wenzel and tell him that we missed him here but we know that there are always conflicts and

that he had a conflict and could not come. Certainly we will look at your testimony with a great deal of interest.

I had joined in introducing legislation to bring the dairy program under a deficiency-type target level limitation of, say, $50,000 per farmer. That does not find a lot of favor when some of the powers in the Congress are representing 500,000 2,000-cow herds, but certainly part of our problem in the dairy program has always been, whatever price support we guarantee, we guarantee it with limitless production and every other farm program, if we give them a guarantee they are required to somewhat exercise some supply management. I think maybe the dairy farmers need some assistance in supply management as well, so when we do have a program like the whole-herd buyout and we bring production down, that when that program is over production just does not creep right back up again and get us right back into trouble. I thank you for being here. Thank you, Mr. Chairman.

Mr. STENHOLM. Thank you very much. We appreciate your attendance here, and we will take a good hard look at some of the specific recommendations that you have made.

I would like to call panel No. 3 now, if you would each take your places at the table? They are Dale Lewandowski, Associated Milk Producers, Incorporated, dairy farmer, from Foley, Minnesota; Bill Kunstleben, also of the Associated Milk Producers, a dairy farmer from Paynesville, Minnesota; Merle Nord, a member of the board of directors, Land O'Lakes, Incorporated, also a dairy farmer from Blackduck, Minnesota; James R. Lefebvre, Mid America Dairymen, Inc., dairy farmer from Elk River, Minnesota; and Arnold Nietfeld, National Milk Producers Federation, First District Association Producer, Melrose, Minnesota.

Gentlemen, we welcome you. We will recognize, Mr. Lewandowski first.

STATEMENT OF DALE L. LEWANDOWSKI, MEMBER, BOARD OF DIRECTORS, NORTH CENTRAL REGION, ASSOCIATED MILK PRODUCERS, INC.

Mr. LEWANDOWSKI. Thank you, Mr. Chairman, and members of the committee.

I am Dale Lewandowski, a dairy farmer from Foley, Minnesota. I am a member of the North Central Region Board of Directors of Associated Milk Producers and serve on the National Beef Promotion Board and Minnesota Dairy Promotion Council. I appreciate this opportunity to comment on a number of policy issues facing dairy farmers.

The 1985 farm bill directed implementation of the Dairy Termination Program as a means of quickly reducing milk production, cutting Commodity Credit Corporation dairy product purchases in the price support program, and lowering government costs. In addition, the legislation directed price support reductions that could total as much as $2 per cwt. through January 1, 1990. The support price has already been reduced 50 cents this year. Most of that reduction has been offset by the removal of the 40-cent assessment that paid a substantial portion of the cost of the Dairy Termination Program.

Right now, the major question with request to dairy policy is whether or not the January 1 price support reduction will be made. Most estimates of production and consumption for 1988 indicate that CCC purchases will be very close to the 5 billion pound trigger point spelled out in the farm bill. There are factors than the levels of CCC purchases that should be taken into consideration in making this decision.

The voting delegates at AMPI's 1987 annual meeting endorsed a resolution calling for a temporary 10-cent/cwt. increase in the producer assessment for national dairy product advertising and promotion in lieu of a price support reduction January 1, 1988. This resolution saw the opportunity to accomplish several things. First, the $600 to $700 million reduction in farm income resulting from a price support cut could be avoided. Second, commercial sales of milk and dairy products could be increased by expanding producer-funded promotion that has proven so successful. Finally, it was felt that this approach could be more effective in reducing government costs, I understand that cost estimates developed by the Congressional Budget Office have now confirmed these expectations.

In recent years the farm price of milk has declined quite sharply. In August 1983 Minnesota farmers received an average of $12.60/cwt. for their milk. In August of this year, USDA says that price was $11.60, exactly $1 lower. As prices have declined, we have been faced with two unsatisfactory choices. We could get out of dairying or expand production to maintain the cash flow needed to stay in business. The result has been pretty evident. The only production declines since 1983 were when the Milk Diversion Program or the Dairy Termination Program were in effect. When price cutting was the basic tool being used to reduce production farmers responded by expanding output.

Those advocating further price reductions argue that one of the benefits of such a policy is that consumer prices decline and consumption increases. Consumption has increased since 1983 but I question that this has been the result of reduced prices. Hoard's Dairyman, a national dairy publication, recently compared farm prices for milk with consumer prices for dairy products. It was determined that farm milk prices had declined by as much as 13 percent between 1981 and mid-1986, while the retail price index for dairy products had risen 7.6 percent.

Right now, there are a lot of dairy farmers, particularly young farmers, on the line. Another price support cut could push them out of business. In the process this could be the reduction that moves us from a fairly reasonable balance between supply and demand achieved by the Dairy Termination Program to one of short markets. That is a real risk that few, if any, have taken seriously in recent years.

USDA indicates the CCC stocks of dairy products are about eliminated. There is, in fact, talk about cutting back food distribution programs, assistance to school lunch programs, and overseas food aid because the Government stocks are not available. If cut too low, stocks are not available for resale to the trade to prevent rapidly rising consumer prices.

It is my understanding that budget savings of up to $150 million in 1988 would result by expanding dairy product promotion rather

than reducing the price support level. A major concern in dairy policy has been the need to cut Government costs. This being the case it would seem that an option that would result in lower costs while maintaining farm income and expanding commercial sales would find ready support.

Over the past year and a half substantial work has been done to bring about a consolidation of national dairy and promotion entities. The purpose of such efforts has been to achieve the most efficient use of producer money being provided for this work. I feel very strongly that such a consolidation is needed in order to avoid duplication.

It appears that those two national promotion organizations are drifting apart rather than coming together as contemplated by the legislation in the 1985 farm bill. Although the success of the 15-cent checkoff over the past couple of years is obvious, Minnesota dairy farmers feel that even more could be done with this needed change in our current structure.

We would ask that you monitor the progress of the amendment submitted by the National Milk Producers to USDA. If we are not successful in merging the two organizations through this administrative process, then we would ask you to help in establishing this much needed reform through the legislation process.

The dairy industry of the Seventh Congressional District truly appreciates you taking the time to bring this hearing to us. Thank you, and I will try to respond to any questions.

[The prepared statement of Mr. Lewandowski appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much, Dale. Next we will hear from Mr. Mel Kunstleben.

STATEMENT OF MEL KUNSTLEBEN, MEMBER, BOARD OF DIRECTORS, NORTH CENTRAL REGION, ASSOCIATED MILK PRODUCERS, INC.

Mr. KUNSTLEBEN. Thank you, Mr. Chairman, and members of the subcommittee, I am Mel Kunstleben, a dairy farmer from Paynesville, Minnesota. My wife and I and three children own and operate 440 acres and milk 57 Holsteins. I am a member of the Associated Milk Producers, Inc., and serve on the North Central and the corporate board of directors of that organization.

I appreciate the opportunity to participate in this meeting to discuss several issues of importance to me as a dairy farmer. Before addressing these, however, Congressman Stangeland, I would like to express my appreciation for your support for needed agricultural programs and legislation. Earlier this year it was my pleasure to present you with an AMPI milk can award in recognition of a 100-percent record in support of key dairy programs in Congress.

The Dairy Termination Program created by the 1985 farm bill has just ended. Over the next few months there will probably be a great deal of analyzing of the program. Without going into great detail, there are a number of things that can be said for it.

The program did reduce milk production. When it started in April of 1986 production was running 5 percent over year-earlier levels. This increase was halted almost immediately. The program

reduced Government purchase of dairy products under the Price Support Program. For the 1986–87 marketing year which just ended October 1, purchases totaled some 5.4 million pounds of milk equivalent. This compares with 12.3 billion pounds a year ago. The program reduced Government costs.

The dairy farmers paid 40 percent of the Termination Program costs, or about $7 million through assessments on milk marketings. The reduction in Government purchases last year alone reduced Government costs by over $1 billion. Substantial savings have been and will be realized by avoiding the high levels of surplus production that were developing when the program started. By any measure the program has been effective.

I am afraid that some USDA rulings have helped affect the effort and intent of the Termination Program. Program participants have agreed to stay out of dairying for 5 years. However, USDA has said it is all right for these people to finance new entrants into dairying. The Department's own rules on the program prevents participants from participating in any scheme which would tend to defeat the purpose of the program,

Assisting in expansion of milk production surely helps to defeat the program's purpose. The program has worked. It is not, however, a final answer to to the problems we face in dairying. Dairy Termination Program moved the dairy industry quickly toward the needed supply-demand balance. It was a short-term program, however, those gains will be quickly eroded if further action is not taken.

I know that the 1985 farm bill provided for a series of price support reductions totaling as much as $2 per cwt. by 1990. These have been portrayed as a tool to maintain milk production at the lower levels achieved through the Termination Program. I am afraid this is not the case. Faced with low feed costs and the need to maintain cash flow, many farmers are going to do the same thing I am in response to these cuts. In my operation I have to expand more to meet my financial needs. More cuts means more expansion. In my neighborhood I know of three operations expanding. And there will be more expanding with further cuts.

We have an opportunity now to establish a dairy policy that will give producers the tools needed to produce for the needs of the market at a reasonable return to themselves and with fair prices for the consumer. In AMPI we have long advocated an effective standby supply management program as part of the dairy policy. This could be used when excessive production was in prospect to prevent a buildup of surpluses which have reached 10 and 12 percent of total production. A two-tier price program such as we have discussed would allow the farmers to receive the full market price for milk needed to meet commercial demand. The price for excess milk would be reduced substantially to help meet the cost of the Government buying the surplus production and to discourage production. A farmer could avoid any price reduction simply by holding production to the level demanded by the market.

As we look at the dairy industry today we see major production areas expanding production. Last month California was 8.5 percent over a year ago, Wisconsin was up 3.4 percent, Texas increased 3.2

percent. Driven by cheap feed, by the need to maintain their operation, or whatever purpose, farmers are increasing production.

We can build on the success of the Termination Program. More and more of the farmers I talked with feel this is necessary. Unless this is done, we face further serious problems with production increases and high Government costs, or the prospect of bankrupting thousands of dairy farmers through successive price reductions.

This not only affects dairy farmers but countless numbers of people in rural America who provide services to farmers. This will reduce production eventually, but when that happens there will be a far greater problem as the abundant supplies of low cost dairy production vanish and consumer prices rise rapidly.

A final point I would like to mention deals with the treatment of high-moisture corn under the Feed Grain Program. Last year many dairy farmers in Minnesota, Wisconsin, and across the Midwest were able to harvest their corn, grind and roll it directly into the silo, obtain a CCC loan on the grain, and then redeem the loan using PIK certificates, in what is called the "PIK and roll." We are told that the program regulations were the same this year. However, several new requirements effectively bar its use. I am told I must have the corn weighed across a certified scale or the volume otherwise verified before I can get the CCC loan. Once that is done I must take out the loan and redeem it with PIK certificates before grinding or rolling it into the silo. All this requires additional time, adds cost, and really achieves nothing except to deny the corn grower who participated in the Feed Grain Program the same program benefits available to the producer putting it into dry storage.

It is a question of equity. I have idled the same acres as my neighbor who is a grain farmer but I am told I must meet virtually impossible requirements to be treated the same. Thank you.

[The prepared statement of Mr. Kunstleben appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you. Next we will hear from Murl Nord, a member of the board of directors, Land O'Lakes.

STATEMENT OF MURL E. NORD, BOARD MEMBER, LAND O'LAKES, INC.

Mr. NORD. Good morning. My name is Murl Nord. My brother and I operate a dairy farm near Blackduck, Minnesota. That is about 160 miles north of here. I serve as a member of the board of directors on Land O'Lakes, Incorporated, a regional dairy cooperative that markets about 25 percent of the milk produced in Minnesota.

In view of the time allocation I would like to present my testimony and will summarize it first, and comment on the summarization.

First of all, I would like to say that I believe that the Dairy Termination Program was effective. It produced benefits for many people: first of all, for the participants. I know personally of many farmers who probably would have exited the dairy business without the Termination Program, but with the Termination Program were able to do so in a much more effective manner and with a lot more dignity.

It benefited the nonparticipants, those of us who are still dairy farming, in that since the startup of the Dairy Termination Program, if we compare the November milk price from 1985 or 1986 to what the November milk prices have been or are anticipated now, we have seen an increase in the milk price, and I feel that a large portion of that is due to the Dairy Termination Program.

It also in my opinion—and while I realize I would get some argument on this from people in Northern Texas, I believe that the Dairy Termination Program has benefited the beef producers. When the program started we did see weak beef prices and the accelerated slaughter of dairy cattle did probably cause a slight dip in the prices for lower-grade beef. But since then it has resulted in a reduction of long-range supplies, the remaining dairy cattle are fewer in number, they produce fewer calves, there are fewer adult cull cows, and this will be an effect on the market for many years to come.

Even the short-run increase in beef supplies represented by the Dairy Termination Program was offset by increased beef purchases by the USDA. So it is doubtful that traditional beef producers were harmed in the short run and it is certain, in my opinion, that they have been helped in the long run by the Dairy Termination Program.

Fourthly, I believe that the program benefited the taxpayers. I think we have already heard of the monetary benefit to the taxpayers by the lowering of the Government costs.

The second point I would like to make is that regional milk production patterns are changing, partly as a result of unwise incentives provided in the 1985 farm bill. We have definitely seen production shifting from the Upper Midwest. We have seen a lot of production cuts up here, with increases in the South.

In the 1985 farm bill there was an increase in the class I price differentials which in my opinion was unjustified and was not needed.

For example, Georgia has an 81 percent class I utilization. The increase in class I price differentials provided an improvement in the base price of about 80 cents. In Texas that amount is about 60 cents. In the Upper Midwest the increase in the base price was about 1 cent. If in my opinion the utilization in the South were somewhere over 100 percent then perhaps these increases in the price differential could be justified. But with the utilization anywheres under that level, the increases that we are seeing in production is going into manufactured products and thereby lowering the manufactured milk prices to the detriment of dairy farmers all over the United States.

I would recommend that class I price differentials under the Federal Milk Orders be reduced to their 1985 levels.

The last point I would like to make is that I feel that small increases in demand or small decreases in milk supply will be enough to avoid the potential cut in the price support on January 1, 1988.

I would recommend, first of all, strengthening the Dairy Export Incentive Program. I think it has been a very effective program, it has worked well; but there are some things and some reforms that could be made. The biggest single reform that I feel could be made

that would make it more effective would be the use of generic certificates instead of CCC-owned dairy products. Such a change would give exporters greater flexibility in meeting the needs of buyers.

If we look at our Federal stocks of butter, for example, we find that most of our butter is salted butter; almost all of it. And that is not what our buyers want when we look at the foreign demand. That is just one example. I think if we could use generic certificates we could make a lot more progress.

The second recommendation I would have then for avoiding the price support cut would be to increase the assessment for dairy promotion. There has been a bill up in the Senate. I am sure one will be introduced in the House if it has not already been, that is suggesting just this. I feel that the dairy promotion has been successful and I think most dairy farmers would be very willing to see that assessment increased if we could do away with the 50-cent price support cut.

The last thing I would like to see, or the last possibility I would like to see considered, is another round of bidding under the Dairy Termination Program. I feel that would be very effective in assuring that CCC purchases would fall below the 5 billion pound target.

Thank you very much for listening to my views, and I will be happy to answer any questions you might have.

[The prepared statement of Mr. Nord appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much. Next we will hear from Mr. Lefebvre.

STATEMENT OF JAMES R. LEFEBVRE, BOARD MEMBER, MID-AMERICA DAIRYMEN, INC.

Mr. LEFEBVRE. Good morning. Thank you committee members for coming to Minnesota to hear our views.

As you know, U.S. milk production has been steadily increasing for several years, with the exception of 1984 when production was reduced by the Milk Diversion Program. In 1985 production rapidly rebounded following the end of the Diversion Program. Milk production for 1986 was about 144 billion pounds, or 1 billion pounds more than 1985 production.

Although almost two-thirds of the 1½ million dairy cattle contracted for slaughter or export under the Whole-Herd Buyout Program were sold by the end of 1986, higher production early in the year and the phasein of the slaughter throughout the year still left 1986 production about 1985.

While 1987 milk production is likely to be below 1986 production, some Whole-Herd Buyout Program cattle still produced milk during 1987 until the last one was slaughtered or exported. Furthermore, expansion of the milk production by non-program participants will replace some of the production removed by the program. By 1988 the Whole-Herd Buyout Program will have ended and the milk feed relationship favorable to producing milk could increase production to above 146 billion pounds. The trend for milk prices has been steadily downward throughout the period of 1983 through 1986, and will probably continue. Without taking assess-

ment into account, all milk prices averaged $12.50 per cwt. for the calendar year 1986, and will probably be about the same in 1987.

Beyond that, prices would likely drop some more by 1988. While this steadily decreasing scenario for milk prices is disheartening, the real importance of milk prices for dairy farmers is in their relationship to costs of producing milk, which will actually be relatively favorable at least in the near term.

There appears to be a considerable amount of support within the administration and in some segments of the industry to utilize price as the sole supply management tool in the dairy industry. Proponents of this position contend that consumers will benefit by lower prices and in the long-run producers will benefit by increased consumption.

Since the price supply management people contend that reducing the support price would benefit consumers, let us look back in history and see what relationship changes in price support have had on changes in the consumer prices.

The price support level has been reduced on nine different occasions since the program was adopted in 1949. A review of those price support reductions reveal that retail prices immediately following a reduction in support price levels have either not decreased or have decreased at a rate substantially less than the rate of decrease in the support price.

During the period of 1981 to 1986 the support price dropped 14 percent. The retail price for a half gallon of milk was unchanged. The retail price for skim milk increased 4.1 percent, and the retail price for lowfat milk increased 1.4 percent. At the same time the retail prices of butter and cheese increased about 7 percent.

Where is the benefit to the consumers from reducing the dairy price support level? It appears not to exist. There appears to be very little if any positive relationship between price support reductions and retail price levels.

A review of history brings us to the conclusion that using dairy price support decreases to bring supply and demand into balance will not benefit consumers through lower retail prices. That also kills the "low price, higher consumption, farmer benefit" theory.

Are price support reductions the solution to balancing supply with demand? To answer that question let us look once again at history. Between 1981 and 1986 milk production increased 9 percent despite a 14 percent in dairy price support prices. Apparently the milk production industry is more complex than a straight-line supply curve would indicate. The 14 percent reduction in dairy price supports has been very painful to dairy farmers and those reductions in support prices have not effectively reduced milk production.

Why has milk production continued to increase despite price reductions and the promise of further price reductions? To answer that question, let us turn to economics. There are many reasons that would answer our question, but the answer is basically an economic issue. We must remember that economics is broken down into two types, industry-level and farm-level economics.

Industry-level economics covers the total industry and is the type that policy makers look at in developing economic policy for the dairy industry. Farmer-level economics is what the individual dairy

farmer considers in making his production decision. For that reason it is farm-level economics that determine whether the dairy farmer makes a profit, stays in business, keeps his farm, and feeds his family. It is a farm-level economic decision that causes a dairy farmer, when faced with a price decrease to increase milk production in the short run to maintain the same level of income.

Said in another way, if the per unit income level is decreased, then more units of output must be produced to maintain the same total dollar volume level.

I have an example here, but I will not read it.

As long as there is any margin at all in producing milk there is a viable reaction of the dairy farmer to a decrease in price. Yet that is exactly what current policy calls for, support price reductions if surpluses are projected to be over 5 billion pounds.

It should be obvious that in the short run price decreases will result in increase in milk production. It should also be obvious that in order for a supply management program to be effective there must be an economic incentive for the farmer individually to reduce his milk production level. A reduction in price fails to meet that objective.

Dairy support price reductions do not affect all dairy farmers equally. A review of recent price support reductions indicates that the heaviest burden falls upon the smaller producers, which are more commonly referred to as family farms. Since 1981 the dairy support price has dropped $1.89 per cwt. or 14 percent. In 1981 there were 252,000 family-size farms, or farms with less than 50 head of cows. In 1985 this figure dropped over 20 percent to 197,000.

Forcing a large number of dairy farmers out of business can have catastrophic implications in rural America. Dairy farmers not only support their families but support many other organizations, businesses, and social units in the rural community.

In order for a supply management program to be successful, it must provide the appropriate economic incentive for dairy farmers to respond to the decreased objective in milk production, whether that objective is to increase production, stabilize production, or decrease production.

We have seen that price support cuts have not been working. Let us not let dairy farmers and rural communities suffer further. The steps that have already been taken to reduce production and the ongoing efforts toward improving demand are heading us in the right direction. We should let those programs work and stop looking for price support reductions to solve the current problems.

After the price support cuts and assessments we have already had, and the potential for another cut in January, now we learn that the Gramm-Rudman law may force the dairy industry to take additional cuts. Dairy farmers will be hard hit if any kind of additional price support cut or assessment is enacted. It is unthinkable that we could be hit with both a Gramm-Rudman cut and a price support cut on January 1 as a result of the Food Security Act of 1985. To be hit with both would be devastating.

If Gramm-Rudman legislation does require that additional stress be inflicted on dairy farmers' income—and I hope this does not happen—dairy farmers would rather see an assessment to milk

marketing than a drop in support price. In a Mid-America Dairymen, Inc., member survey conducted this summer, 66 percent of the dairy farmers surveyed said they would prefer an assessment rather than a price support cut, if U.S. budget reductions force something of that nature.

I hope that our Government sees that the dairy industry does not need any more price support cuts or assessments of any kind. Thank you, and I will be available for questioning.

[The prepared statement of Mr. Lefebvre appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, sir. Next we will hear from Mr. Nietfeld, of the National Milk Producers Federation.

STATEMENT OF ARNOLD C. NIETFELD, MEMBER, NATIONAL MILK PRODUCERS FEDERATION

Mr. NIETFELD. I am Arnold Nietfeld, a dairy farmer and board member of the First District Association of Minnesota. Our organization is a member of the National Milk Producers Federation.

I appreciate this opportunity to appeal before the subcommittee and I would like to commend you for your efforts in bringing the subcommittee to Minnesota so that producers here can present their views on current farm programs to Congress. We have been pleased with your responsiveness to our concerns to date, and we look forward to working with you on issues before the U.S. House of Representatives in the future.

My intention here today is to focus on how the 1985 farm bill has affected the dairy industry nationally and what the outlook is for the near term.

While I do not want to dwell on past history, it is gratifying to be able to commend the subcommittee for its role in establishing what we believe are the positive dairy provisions of the Food Security Act of 1985. Those of you who have served in the 99th Congress will recall that we were initially concerned that a Dairy Termination Program or whole-herd buyout as it was referred to at the time, by and in itself would not prove adequate to correct the supply and demand imbalance in the dairy industry, an imbalance which we sought to resolve.

As we look at the nation's agricultural situation today, we are pleased with the tremendous accomplishments evident in the dairy program. No commodity program in the entire farm bill can show the progress in terms of both surplus reduction and Government cost savings that we have seen in the dairy program. It is an enviable record and one which deserves greater attention, both as a tribute to Congress and to the hard work and sacrifice of the nation's dairy farmers in making the program a success.

Since the inception of the DTP milk production has dropped before a year earlier levels every month. During the first 6 months of this fiscal year 1987 milk production is 4 percent below the same period of fiscal year 1986. Milk cow numbers are 6 percent below a year earlier and are at the lowest levels on record.

With milk production declining and the dairy farmer-funded milk promotion efforts helping to boost consumption, dairy program purchases by the CCC on a milk equivalent basis have

dropped dramatically. After reaching 13.2 billion pounds, or about 9 percent of total production in calendar year 1985, Government purchases have dropped to 10.6 billion pounds in calendar year 1986, during the initial stages of the DTP. That reflects a 19-percent drop in purchases in 1 year.

Now that the DTP has nearly run its course the results are even more dramatic. During the first 10 months of 1987 the USDA purchased just 4.86 billion pounds, more than a 50-percent reduction from the 12.6 billion pounds purchased during the same period in 1986. These dramatic reductions in the dairy program purchases translate into substantial reductions in the cost of the dairy price program.

For fiscal year 1986 dairy program costs totalled $2.3 billion. For the fiscal year 1987 total program costs will be about $1.1 billion, making the dairy program one of the few and perhaps the only commodity program to fall within its budget baseline. We expect the program savings to continue into the next fiscal year as well, with program costs projected below the 1987 level.

Red meat purchases. Beyond the tremendous gains in the dairy situation that have been made with the assistance of the DTP, the program has additionally provided substantial aid to the Nation's cattle producers, largely through the foresight of the subcommittee in providing for the purchase of 400 million pounds of red meat by the Government to offset additional meat coming onto the market as a result of the DTP.

Now, the situation today. While we are pleased with the positive results of the dairy termination program there is none the less great concern among dairy farmers over the possibility of further erosion in the milk price support as a result of the CCC trigger levels established in the 1985 farm bill. Despite the excellent results to date we are concerned that there may be a reduction in the support price of 50 cents per hundred weight on January 1, 1988, which would lower the support price to $10.60, if the USDA projects CCC purchases in 1988 in excess of 5 billion pounds milk equivalent. Our projections indicate that surplus removals will be less than 5 million pounds for 1988. But unfortunately, there is no objective mechanism to deal with the trigger. If USDA reduces the support price and removals turn out to be less than 5 billion pounds for the calendar year, the Department will simply claim that the removals were lower because of the price cuts.

This price cut could happen even though it is clear that the USDA will not have sufficient stocks of dairy products in CCC inventories to meet its various congressional mandates for domestic and foreign dairy product obligations.

Recently USDA rejected an opportunity to sell dairy stocks to India, claiming that no product was available. At present many State food distribution coordinators are voicing concern that they will not receive enough dairy products from the USDA during fiscal year 1988 to meet their local needs under the Temporary Food Assistance Program.

Frankly, it is difficult to comprehend the possibility of further reduction in farm milk prices at the same time USDA is unable to provide dairy products for its programs. We do not believe further price cuts are needed at the present time. Because of our concern

we are exploring possible ways to provide even greater assurance that CCC removals will be below 5 billion pounds in 1988, thereby eliminating the possibility of a price cut on January 1, 1988.

One proposal which our members are examining is the possibility of increasing National milk promotion expenditures to commercially market even more milk and get us under the 5 billion-pound trigger and eliminate the authority for the potential price cut. We will be communicating our views to the subcommittee on this subject in the coming days as our members continue their deliberations on this matter.

In summary, we are pleased that to date the dairy program has worked better than perhaps any other commodity program in the 1985 farm bill. The dramatic budgetary savings we have achieved in a very short period have contributed greatly to reducing the deficit, especially at a time of rising farm program costs in other commodities.

But we do harbor a treat deal of trepidation over the possibility of what we consider unwarranted price support reductions at a time when milk production and consumption are in near balance and the Federal Government is expected to be short of dairy products for its various program uses. We hope we can work with this subcommittee in the coming days to address these issues in a manner of fairness, equity and equity to the nation's dairy farmers.

Thank you for this opportunity to present my views here today. I will be happy to respond to any questions.

[The prepared statement of Mr. Nietfeld appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much, each and every one of you, for some very excellent testimony. I would again remind you that each of your written statements will be made a part of the record in their entirety. We thank you for adhering to our 5-minute rule. Mr. Penny.

Mr. PENNY. Mr. Kunstleben, you mentioned this wet corn issue. I just wanted to remark that I think that has been resolved, and I pray it has been because I sent a press release out yesterday saying it had been. [Laughter.]

We could not figure out either why they were changing their policy this year on wet corn and it is my understanding that as of Thursday the USDA has announced that it will do on-farm measurement of that high moisture corn. So you should be hearing more about that very shortly. You might want to contact your local USDA office, ASCS office, and check into that. But as of Thursday that is the word our office had.

I would like to thank Mr. Nord for the list of suggestions he gave us as to how we can further reduce the surplus and increase demand. The two are obviously linked together. We are very anxious to work together with you and others here on any proposals you might have that will help us avoid that price support cut that might occur the first of the year. We think that tremendous success has been demonstrated under the program. It is not exactly the way you like to see production brought down. You hate to see 14,000 producers leave the industry, but nonetheless it has reduced dramatically the cost of the program, the size of the surplus, and when we are so close to getting under that 5 billion pound trigger,

it just does not seem fair to come in with a price support cut which could very well be counterproductive. It may lead to higher production instead of lower production, and so the pain will give us no gain. I do not want to see that happen. I think there are alternatives to get around it. There are other ways that we can deal with this issue and I certainly want you to know that I am ready to work with you in that respect.

Thank you, Mr. Chairman.

Mr. STENHOLM. Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman. I want to commend this panel. I guess one of the themes that all of you bring forward and do it so very well, is something that we have been trying to convince this Department about since we got into problems with the dairy price support program and the excessive Government purchases of milk. That is, whenever you reduce the price support level the farmer in order to maintain a volume a income is going to try to increase production. To reduce the price support is counterproductive. And if they are going to use the price support mechanism to control production as the supply management tool, then rather than 50 cents you had better make it $1.50 or $2, and then you will control production. You will also wipe farmers right off the farm and that is something we do not want.

It is interesting, Murl, I think you were the only one that really stressed it strongly but I think all of you have it as well in the back of your minds, that we might well look to increasing the promotional program. Dale, I think you mentioned the problem of the two—or was it you, Murl—the two conflicting organizations that might not always be tracking and have some duplication. That is something we want to look at.

It was interesting; this morning I had breakfast here, I and Congressman Stenholm with a group of local dairy farmers, one of whom said there was a tremendous amount of resistance among dairy farmers to that money that was taken out of their check to promote the sale of milk. I think too few farmers really realize, I guess—and I thought it was common knowledge—that if purchases are deemed to be 5 billion tons of dry milk equivalent—or 5 billion pounds on January 1, that there is going to be a 50-cent price cut. And those of us who serve dairy interests in Congress, dairy farmers, fight strenuously against any further reduction.

In the budgetary process, if an additional 5 cents or 10 cents taken out of the dairy farmer's check, promoting the sale of milk, brings the purchase down below 5 billion, they save a 50-cent reduction. That is a 40-cent gain. It just looks to me like pretty good business.

I guess what we have to ask all of you through your organizations is, join with us in an educational program. Because for those of us, Mr. Penny, myself, the chairman here, who really does not have that much dairy interest in Texas, he has more beef interest, and as he says, gas and oil and cotton—all of us are strenuously fighting to try to prevent that reduction in that price support level.

Congressman Stenholm has come up with the idea that we ought to forestall that as long as possible until we get the exact figures because we might be cutting that 50 cents and then all of a sudden

find out that the real volume of purchase was less than 5 billion and that cut would not have been required.

So I think we have got to be talking about better promotion, more promotion, and trying to work out ways that make this thing go.

I very much appreciate your testimony. I think it was well thought out and it is apparent that all of you have given a lot of thought to what is going to happen in the future in dairying. Thank you, Mr. Chairman.

Mr. STENHOLM. I have a few questions I want to ask each of you. As Arlan has stated, under current law if projected milk purchases in 1988 exceed 5 billion pounds there will be a price cut of 50 cents on January 1.

As we all know, our historical ability to predict the future in anything, particularly in agricultural production, is not the most perfect science.

Therefore, we have looked at various proposals surrounding the possible price cut.

My concern is that we do not do it on an estimate but that we do it on what actual purchases are going to be. And if we use CBO, which is what we must use in the House for budgetary reasons, they are now estimating 5.1 to 5.2 billion, with the price cut.

We have, I believe, two options, currently. We are open for a third one at any time.

One is do nothing and take our chances with what the Secretary will estimate in December 1987, which today I think you have to assume there will be a price cut. But we do not know that.

The second option would be that we have a 10-cent increase in the promotion fee that will be administered nationally. We are looking at dividing it, 5 cents into generic advertising, 5 cents into branded advertising. And that will become effective upon enactment of the new law or the new legislation changing the 1985 farm bill.

Moreover, the first option would include a 10-cent price cut on January 1 if the Secretary estimates that purchases will exceed 5 billion pounds. The remaining 30 cents of the 50-cent cut will occur July 1 if the Secretary in estimating on June 15 that purchases for the entire year of 1988 will exceed 5 billion pounds.

The second option would be the 10-cent promotion fee upon enactment of the legislation; no price cut on January 1; a 40-cent price cut July 1 if in fact actual purchases exceed 5 billion pounds.

Now, each of you have testified to some of the problems associated with the magic of the 5 billion mark and I am concerned myself: the inadequacies of the supply for meeting export needs, the inadequacies of the supply even to meet feeding program needs. All of these are valid concerns.

The problems that we have in changing the trigger are political in nature.

Unfortunately, we are locked into law and changing that law is going to be impossible along the lines that you have recommended.

My question to you is, In the two options, or a third possible option, which one would you prefer?

Mr. LEWANDOSKI. Mr. Chairman, I think that any of those would be a lot more viable option than the automatic 50-cent cut on the

first of the year, if we do it based on history of 6 months' added promotion and 6 months' production. As an aside here, we have, the industry has increased their promotion budget about 50 percent over the past 3 years since we have put our 15 cents in there. So we let all those things go to work. I think if we could wait till July 1 and make a determination it would be a lot more accurate.

Mr. STENHOLM. As I mentioned, in one of the options we are looking at on the promotion fee is to mandate that a nickel of your money must go into a branded advartising program of which matching dollars must be a part of it. In other words, you the dairy farmer put up a dollar, the manufacturer, must match your dollar with another dollar so you get a leveraging of your dollar.

And the reason I am asking you this and why I am pushing it is, I was an original trustee of Cotton, Inc. Originally we had opposition among cotton farmers for any spending of their dollars to promote products.

It took us a while but we finally came around to approving it in cotton and it is working beautifully. Today, the cotton industry can take its dollars and leverage them, and work with those who are selling that which we produce, which is advantageous for all parties concerned.

I happen to believe that there is some real opportunity for increased consumption by using branded advertisement. I would like for each one of you to comment.

Mr. LEWANDOSKI. Thank you, Mr. Chairman. I fully agree that would be a lot more palatable to the producer, that he knew that someone else was helping him. That has always been a concern, that the producer is putting up the money for the promotion and that someone else should be doing it. I think that would be a good joint venture. Thank you.

Mr. STENHOLM. Mr. Nord.

Mr. NORD. I will comment on the last question you asked first. Being a Land O'Lakes director, I would wholeheartedly endorse the commingling or the encouragement of private industry to put in their nickel along with ours so we would maybe jointly get 15 cents instead of 10 cents.

I would prefer to see a 10-cent promotion checkoff rather than just a 10-cent assessment, because I feel that would do something.

Now, I understand there might be some budgetary considerations on Congress's part. But of the two alternatives, I would prefer to see the 10-cent assessment.

I have some concerns about the organizations not coming together but I feel that is our own dirty laundry within the dairy industry and we are going to have to address that. There are some costs and all involved, but I do not think that should be involved in this total debate.

Mr. LEFEBVRE. On the first issue, I would rather do the one, the 10-cent promotion and the 40-cent in July, because I like to keep the money as long as I can.

I think most of our producers that I represent on the Mid-Am board would feel that way, similarly.

On the promotion issue, splitting the 5 and 5, I guess I think most dairy farmers personally would resist the branded advertising. However, I feel that if that branded advertising, the 5 cents for

branded advertising was the industry provided new, if their commitment was new money to the 5, then yes. Then I think there would be less resistance. But if it is 5 and they just take 5 out of their ordinary budget, I do not know if that would be a very satisfactory. But if it is new money that they, above what they have already committed for advertising, I think that would be good. Thank you.

Mr. KUNSTLEBEN. I, too, Mr. Chairman, would like to see the 10-cent promotion and the 40-cent cut in July. I think the people that I represent would wholeheartedly go along with that. And on the nickel-matching private label advertising, I also feel that if there is new money coming in we could get extra dollars for advertising, I feel that would be the way to go. Thank you.

Mr. NIETFELD. I feel we should go with the 10 cents advertising and then the 40, and then wait till July and see how we come out by then. There will be some opposition if we went matched advertising but in the long run I still feel that will be coming and maybe a good thing to look into and continue keeping it in your literature or whatever you use and promote it.

Mr. STENHOLM. Thank all of you for those comments. I would make one or two additional comments regarding some of your recommendations.

As a beef producer myself who happened to have a fairly good number of cattle on wheat pasture at the time of the Dairy Termination Program, I was affected.

In my own case, I was fortunate enough to go to the feed lot and avoid the losses. But many of my friends, neighbors, and constituents were not as fortunate.

The message for all of us here today—and I hope everyone can understand—our options are limited, on this committee, as to what we can do to avoid that 50-cent cut. The message to the dairy industry is to either cut production, increase consumption, or pay the price.

I believe cattlemen understand that it really does not make sense to make an arbitrary cut based on a presumption of what is going to happen, versus making a cut in July based on what is happening.

I think that logic is what we are going to have to try to carry forward in all of our work.

Arlan, any further questions?

Mr. STANGELAND. I have no more questions, Mr. Chairman.

Mr. STENHOLM. Thank you very much for your testimony and for being here today.

Next we would like to call panel four: Dr. Jerry Hammond, department of agricultural economics, University of Minnesota; Mr. James Kinney with the Minnesota Farmers Union; and Mr. Roger Gilland representing the Minnesota Cattlemen's Association.

Mr. Gilland, we will hear from you first.

STATEMENT OF GARY PURATH, PRESIDENT, MINNESOTA STATE CATTLEMENS ASSOCIATION, PRESENTED BY ROGER A. GILLAND, VICE PRESIDENT

Mr. GILLAND. The Minnesota State Cattlemen's Association would like to thank the members of the House subcommittee for this opportunity to explain our views and concerns following the Dairy Termination Program of 1985.

This program caused huge losses for our industry, especially in the first weeks following the implementation of the buy-out program In a recent study by Montana State University it is estimated that the beef industry lost one-half billion dollars during the 18 months following the program; $30 million were lost the first 10 days of the program. This does not include losses in the futures market.

The futures market dropped the daily limit of $1.50 per cst. in 11 of the first 20 days following implementation of the program. This market dropped more than $5 per cwt. in the first week.

While this market is controversial and not used by all producers in the industry, it is viewed in a much stronger sense by the people who finance the cattle business. It has caused financial hardship for many in the cattle business. It is one of the main contributors in the recent decline in the beef business in Minnesota.

Many beef producers were put out of business because of the severe drop in prices and poor outlook for prices because of the increased tonnage put on the market in such a short period of time. At that time the industry was in the fifth year of liquidation and was very susceptible to outside influences.

The Whole Herd Buy-Out Program put a severe strain on many of the remaining dairy producers. They had to pay part of the cost of the program. They also had to take a greatly reduced price for the cows that are normally culled from the herd and also for the steers that are marketed for beef. These cattle competed directly with the cattle delivered in the program.

The program caused Main Street businesses in many small towns to have more problems surviving in an already difficult time. While it gave a few people money to spend it took money away from many because of the poor implementation of the program by USDA.

The Cattlemen's Association historically has not been active in the formulation of agricultural policy. Because of some detrimental programs and peor implementation of others, the Cattlemen's Association will take a much more active part in the future. The National Cattlemen's Association was involved in a lawsuit with USDA over implementation of the Dairy Herd Termination Program.

This was not a fight with the dairy industry but a disagreement with USDA over the handling of the program. According to the bill, the dairy herds were to be dispersed in an orderly fashion. USDA wanted to get rid of as many herds as possible as soon as possible and therefore had a very adverse effect on prices for all cattle. USDA has been much more cooperative in dealing with the problems of the program since then.

The Cattlemen's Association does not support and will oppose and any attempt to open the 1985 farm bill. The bill may not be perfect but has more provisions for the livestock industry than previous programs have had.

Government policy has become increasingly reactionary and less the result of long-term planning. Our industry does not adapt well to short-range programs. It takes several years for the cattle industry to make major changes because of the biological makeup of the animals.

We will not support another dairy diversion program. The beef industry does not get any direct Government subsidy. We rely on the free market to determine supply and demand for our product. It is our position that this most fairly determines prices and supplies that can be consumed. Government programs to accomplish this seem to have little success because people tend to produce for the program instead of the marketplace.

The third page of my statement contains a newspaper article from Dr. Hammond. I will just read the first paragraph, just to show that some of these programs do not seem to help.

> Dairymen may want to start increasing production now in order to be ready for the supply management program that will inevitably be implemented within 5 years, according to a University of Minnesota economist.

Thank you.

[The prepared statement of Mr. Purath appears at the conclusion of the hearing.]

Mr. STENHOLM. Mr. Kinney.

STATEMENT OF JAMES E. KINNEY ON BEHALF OF THE MINNESOTA FARMERS UNION

Mr. KINNEY. I am James Kinney, dairy farmer from northwestern Stearns County.

The purpose of the hearing today is to assess the effectiveness of the Dairy Termination Program and to review other dairy provisions contained in the Food Security Act of 1985. In that context, therefore, I would like to address several issues.

First, the Dairy Termination Program. The Dairy Termination Program has achieved at least two major goals. It has helped reduce CCC dairy purchases and CCC dairy stocks. It has reduced the cost of the Dairy Price Support Program in excess of $1 billion since its inception. Additionally, through the red meat purchase requirement it has helped strengthen the live cattle market price over the last 18 months. The only area in which the program has not been successful has been in improving the farm price for milk. In fact, during the last 18 months we have actually seen the price for manufacturing grade milk decrease.

Under the Dairy Termination Program the Commodity Credit Corporation will purchase approximately 5 billion pounds of milk this fiscal year. If the program had not been in effect, estimates are that the CCC would be buying nearly 15 billion pounds of surplus dairy products, doubling to almost $2 billion the cost of the Dairy Price Support Program.

In addition to the 400 million pounds of red meat which was required to be purchased under the program 100,000 head of dairy cattle were exported.

The second issue of concern to us is the prospect of an additional 50-cent per cwt. price reduction on January 1, 1988. With the 25-cent price reduction that went into effect on October 1, dairy farmers will have seen their price cut by $2.50 per cwt. since January 30, 1982. This is a 19-percent cut in price while farm production input costs have continued to escalate over the same period of time. The additional 50-cent price cut is to go into effect if the USDA projects that purchases will exceed 5 billion pounds for the year.

At this point analysts within the Department say their forecast of possible purchases is "too close to call." I submit that if the Secretary institutes the additional price cut on January 1, purchases will exceed the 5 billion pound trigger simply because dairy farmers are going to increase their production to meet their fixed operational costs. Not only will dairy farmers suffer financially; costs of the program to taxpayers will increase, and the effects of the successful Dairy Termination Program will be negated.

Today in Minnesota the average price received for manufacturing grade milk is $10.90 per cwt. In October 1982, our producers were receiving $12.90 for that same milk. The parity price for that milk today is $23.70. In October 1982, it was $21.00. USDA's Prices Paid Index in October 1982, was 155. Today it is 164.

The simple fact of the matter is input prices are up and farmers' returns are down. Another price reduction in this region of the country, coupled with the prospect of increased production costs, increased interest rates, and rising inflation during 1988, will smply mean more Minnesota and Upper Midwest dairy farmers will be out of business.

There are doable alternatives to further price cuts, increased program costs to the Government, and more dairy farmers going out of business. The first order of agricultural business for the Congress next year should be a complete revision of the dairy provisions of the "Food and Agriculture Act of 1985."

The dairy farmers of this country need an effective supply management program. Every other major dairy-producing country in the world is now in the process of curtailing excess milk production. At least they are trying to face up to the reality of what we are experiencing today, low farm prices, excessive costs, and unyielding surpluses.

Right now, under existing law, of the Secretary of Agriculture were truly concerned about the future of America's family dairy farmers, he has the authority to limit production either through initiating another milk diversion program or reinstituting the Dairy Termination Program. There are other measures which the Federal Government could implement under existing law to help reduce overproduction and excessive accumulation of stocks.

The President of the United States should exercise his authority and impose effective quotas on importation of casein into the United States. In 1986 casein imports into this country reached the 230 million-pound mark for the second consecutive year. Imports of casein at that level displace approximately 690 million pounds of

domestically produced nonfat dry milk. The milk equivalent of casein imports last year alone exceeded the 5 billion pound surplus removal level that would trigger the 50-cent price cut on January 1, 1988.

Additionally, the use of artificial cheese in food products substantially reduces the domestic use of real cheese products. University of Wisconsin dairy economist Truman Graf estimates that the production of 335 million pounds of imitation cheese in 1985 increased CCC purchases of surplus dairy products by 3.4 billion pounds of milk equivalent. Yet the Department of Agriculture refuses even simple steps such as the requirement that frozen pizza products prominently state that imitation cheese was used in the production of that food item.

Dairy farmers are willing to do their part in controlling production as evidenced by the two successful programs to limit production that have recently been utilized, the milk diversion program and the Dairy Termination Program. Additionally, dairy farmers are funding a research and consumer information program to increase consumer awareness of the benefits of real dairy products, which in turn has helped increase domestic consumption of real dairy products.

Now it is time, we believe, that both the Congress and the Administration work together with our nation's dairy farmers to create and implement a reasonable and workable dairy policy. Thank you.

[The prepared statement of Mr. Kinney appears at the conclusion of the hearing.]

Mr. STENHOLM. Dr. Hammond.

STATEMENT OF JEROME W. HAMMOND, PROFESSOR, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, UNIVERSITY OF MINNESOTA

Mr. HAMMOND. Mr. Chairman and Mr. Stangeland, I am pleased to be here this morning to comment on the dairy program. I am Jerome Hammond, professor of agricultural economics at the University of Minnesota.

The Food Security Act of 1985 and the dairy termination provisions of the program has been a major factor in bringing reduced milk production and reducing surpluses. Rogardless of the number of criticisms, specifically, its ability to bring about a long term reduction in milk supply, it did achieve its principal objective. That was to remove 12.3 billion pounds of milk; not 12.3 billion less than 1985. Rather, milk production would have been in excess of 150 pounds this year instead of the estimated 141-plus billion pounds. And that difference would have been additional CCC purchases.

The national dairy herd was substantially reduced in a very short period of time. Furthermore, the cost of removing this milk, some of which was recovered by the assessments, is really quite a bit less than removing that milk by direct purchases. Currently the CCC buying a hundred weight of milk in the form of butter and nonfat dry milk costs $12.57; in the form of cheese, $12.72; and that is every year. The Dairy Termination Program paid $14.88 on average, and that is to remove that milk for 5 years.

Dairymen may want to start increasing production now in order to be ready for the supply management program that will inevitably be implemented within 5 years.

I guess if you are not misquoted I think you ought to disclaim it. And I say this for this reason, that can become a self-fulfilling prophecy, and if the dairy farmers listen to this and go out and build their herds, they are darn sure going to get the program and themselves in a heap of trouble. There is nothing inevitable about us implementing a supply management that is based on historic production bases and quotas; nothing at all.

We could well put in a target price program for milk, set a $50,000 limitation, and some farmer who doubled his herd out here and got up to 150 cows may find himself all of a sudden in deep trouble.

I think you are projecting a lot of things that—there is a political climate out there as well as an economic and a social climate.

Mr. HAMMOND. In response to both of your questions, the one is, I think I pointed out that there is a political adjustment here at the end. This is largely a political decision, how we are going to make this adjustment. I do not think that technological advances that we have made, that is a producer decision, and producers make that, because it is profitable for them to do so. And then it generates certain situations that we attempt to deal with in the political arena.

The other thing is, in regard to the quote. There was a—I do not recall what; it was a telephone interview with someone. I believe, in regard to that, was it, what?

Mr. STANGELAND. It was your comments at the Annual Outlook Conference at the U. of M. campus.

Mr. HAMMOND. OK. My comments, they are written down in a paper that I presented at that meeting, so I think I can check back to see exactly how I stated that, but I do think that the building of base by producers is a rational decision. If at the same time you can increase—there are a lot of other things farmers are accomplishing by that, so I am not urging them to do it. But at the same time I am not criticizing them for doing that kind of thing. And it has been stated many times in many meetings.

Mr. STANGELAND. Well, by saying that a supply management program will inevitably be implemented within 5 years, you are giving a direction that it is good business to go out there and build that base right now and overproduce. I think that is the wrong signal for anybody to be giving a dairy farmer at this time.

Mr. HAMMOND. I do not think I said, by 5 years. I believe I had a range of 3 to 8 years or——

Mr. STANGELAND. That is why I said, I hope you are misquoted in here.

Mr. HAMMOND. Or something of that nature. I think it is somewhat of a misquote.

Mr. STANGELAND. It is interesting, Mr. Gilland sitting there on the table saying they will not support any more buyouts and Mr. Kinney saying that we ought to have an additional buyout. You see why we have problems writing a farm bill.

There are some very difficult choices down the road and I think Congressman Stenholm outlined some that we are facing in the

short term. But the industry itself has to recognize that it has to get its house in order. And I think the farmers have to be realistic.

My concern—and we may have corrected some of it when we passed the last Tax Reform Act—at the tremendous expansion in the Southwest and the West in dairy production. And that expansion, I believe, took place partly because of the tax incentives for outside investors to invest in, partly because of cheap feed, partly because of a market and a climate.

We see a traditional shifting, or a shifting away from the traditional dairy-producing areas of the Upper Midwest, the New England States, and New York, to the South, Southwest, and the West. And it is very difficult to stop that, very difficult to put any restrictions.

Both Mr. Penny and I, and I think others, would like to see some kind of a two-price system so that you produce so much for a certain price and then anything beyond that—or a three-price system. But politically that is very difficult to try and sell in the Congress in Washington.

One of the problems that we face is to come up with solutions. And one of the problems that you as dairy farmers face is to come up with solutions that we can put into practical application. It is easy to come up with a solution that is going to solve your problem but if we cannot get it into law it is no solution at all. So that is something that I think we have to keep in mind as we go through this whole process of reviewing where we are today and where we might think we want to go in the future with the dairy program. I thank you, Mr. Chairman.

Mr. STENHOLM. I am reminded at this point of one of the quotes attributed to the late Will Rogers when he once observed that "It ain't people's ignorance that bothers me so much. It's them knowin' so much that ain't so is the problem."

I know in Congress, as we deal with various issues, why I am always reminded of that quote from Will Rogers.

Mr. Gilland, were you here when I asked the dairy association representatives to respond to a couple of options? Would you care to comment on the proposal that keeps the 50-cent cut but makes it applicable on July 1, based on actual figures. Or do you prefer making that estimate December 1, as you stated in your testimony?

Mr. GILLAND. I think that proposal, if it could be worked out without opening the farm bill, and opening it to all kinds of other things totally unrelated and everything else, would work out real well. I think it is something we could support.

Mr. STENHOLM. So you do not have any objection to taking a look at slipping it until the first of July and basing the decision on actual data, as long as we keep the intent of the 1985 farm bill?

Mr. GILLAND. That is right.

Mr. STENHOLM. Well, I appreciate that. I also want to follow up with you on your statement where you say the beef industry does not get any direct Government subsidies. I am glad you put in "direct." So often cattlemen leave out "direct" and I am tempted to ask you whether the Minnesota cattlemen want to see the water subsidies of the California cattlemen eliminated.

Mr. GILLAND. We in the Midwest oppose some of the things that are going on in the West because it is unfair to all the producers in the Midwest.

Mr. STENHOLM. I suggest to all of my cattlemen friends to not be quite as vocal on the amount of Government involvement in our industries. There are indirect subsidies that occur as well as direct. And I am very pleased with the leadership within the Cattlemen's Association. I appreciate your responses to my questions this morning. We are getting away from some of the philosophical divisions that we sometimes get into and we are more in the same boat rowing together, which is awfully important to American agriculture.

Along the same line, Mr. Kinney, do you really advocate 100 percent of parity for milk today?

Mr. KINNEY. Not 100 percent of parity; no. But I think you could have more than that.

Mr. STENHOLM. OK. I did not think you were advocating 100 percent of parity.

Mr. KINNEY. Well, why not ask for 100 percent and then expect to get 80 or something like that? [Laughter.]

Mr. STENHOLM. I will buy that.

Mr. KINNEY. Could I ask you two a question?

Mr. STENHOLM. Surely.

Mr. KINNEY. On this casein situation, why cannot that be imported as a food instead of a chemical? All the imports come into the United States, are imported under a chemical which they claim is used for glues for making plywood and things like that. And a lot of it winds up in these imitation foods, imitation cheeses and stuff. Now, as I stated here, if that casein could be considered as a milk, and that would be stopped, we would have no problem with this assessment coming up. It would eliminate all that amount of milk that is in excess.

Mr. STENHOLM. First off, there is a provision in the trade bill that is now being considered that would make that change. I do not know what is going to happen at this stage but there is a possibility of making the change that you ask. It is something that should happen.

We have got the pizza labeling question in which imitation cheese is not adequately labeled. We are working on that issue.

It is true what you say, that if it were not for the casein imports we may not have the 5.1 or 5.2 billion pound purchases by CCC. But we also have to recognize the total agricultural aspects of all of these decisions. That is not a satisfactory answer to you, but that is where this one member comes from.

Mr. KINNEY. But if it would be imported as a food instead of a chemical?

Mr. STENHOLM. I agree with you.

Mr. KINNEY. That would make a difference.

Mr. STENHOLM. We are going to continue our work in that area.

Mr. KINNEY. Thank you.

Mr. STANGELAND. I would like to add here as well, two things. Congressman Stenholm is the big advocate for labeling for real cheese and I support him wholeheartedly.

On the other one, on casein, we tried a little ploy in the trade bill when we had the ag section of the trade bill before the Ag Committee. Congressman Jeffords of Vermont offered an amendment that we supported that did not cut down the importation of casein but gave credit against the 5 billion pounds to a certain volume of casein imported into this country, that would have kept us below the 5 billion trigger without doing anythng.

And right within the heart of the Ag Committee that debate took place and one of our colleagues from a southern state offered an amendment to strike that and we lost the battle in the Ag Committee. Even in the Ag Committee we could not do that. And so we try, and your point is well taken.

I can recall when I first went to Congress 11 years ago testifying in St. Paul against the importation of casein. The Joint Trade Commission recommended at that time that casein imports be curbed and that administration under Carter, and this administration under Reagan, have chosen not to put any curbs on the importation of casein while the Trade Commission recommended a reduction in imports of casein, way back at that time.

So, it is a long battle, and we still fight it. We do not seem to get very far, but we try.

Mr. KINNEY. Thank you.

Mr. STANGELAND. Thank you.

Mr. STENHOLM. Dr. Hammond, I have closely followed your testimony as you summarized today. Obviously, a lot of thought and effort went into your written statement. Your numbers are very interesting. I look forward to looking at those more closely.

We are moving toward limitation of payments that are real. So you talk about $50,000 limits, targeting benefits, and any kind of a quota program, you have to be reasonably assumptive that the Federal Government is not going to subsidize large corporate farms, whether they are dairy, cotton, or anything else. Nor should they, quite frankly.

As we have moved now to a more market-oriented agriculture, efficient producers had better be preparing with long-range financing to compete in the world market with very little if any Federal Government support.

But I also will say that if we should move to a two-price system, this one member will be very reluctant to reward any producer that has increased their production during this period of time when surpluses are growing. I am going to be very reluctant to support those individuals who do those things that cause everybody to pay the price.

I do not know whether I am going to be in a majority or a minority, but I believe on the Agriculture Committee there is a lot of support for that.

If by increasing your production you increase efficiency, great. But we are moving away from the taxpayer financing that increased production, and I think there is a certain amount of rightfulness to that.

Have you made a projection as yet as to what the actual purchases for CCC are going to be for 1988?

Mr. HAMMOND. For 1988 I estimated that they would be 6.5 billion pounds. It is in one of my tables there.

Mr. STENHOLM. And that is assuming no price cut?

Mr. HAMMOND. That I made with the assumption that there would be the price cut. If not, then they would be somewhat over, maybe in excess of that.

Mr. STENHOLM. So your projections right now are that the purchases will be 6.5 billion pounds with the price cut. So you assume increased production next year with the price cut?

Mr. HAMMOND. Yes. I think that production figures that we have now sort of indicate that we are resuming that trend that we have had for quite a while, for most of the 1980's. This last month reports for August milk production, the ones that were reported here, up 8.5 percent in California and Wisconsin up; two very big States. So unless something—that seems to indicate a change of direction.

Mr. STENHOLM. So, by that you disagree very strongly with those economists that say, with a 50-cent cut the cost of the dairy program will decrease. You say it will increase? If you are going to purchase more milk, the cost of the program is going to be up.

Mr. HAMMOND. Sure. But either way they are going to go up this next year, but they will go up more with holding the price as is than they will if you cut the price. There would be somewhat of an impact to that, but in neither case do I think you are going to get a decline in milk production next year.

Mr. STENHOLM. Do you have any projections as to what an increase of 10 cents in the promotion assessment would do to those numbers?

Mr. HAMMOND. Measuring the response of markets to advertising expenditure has been attempted by a lot of economists with very mixed results. I think there is no doubt that the promotional program, the expanded promotional program that we have had here in the last few years has had an impact on milk consumption. There were a number of factors that came into play here also.

The 10-cent expenditures on advertising overall I am sure would expand milk consumption, commercial use of milk. I do not have any figures. I would be very surprised if it would in any major way cut the surplus; that is, that we could get that—whatever it happens to be, but say my 6.5 billion—down to 5; that it would generate a billion and a half pounds of milk consumption. But I do not have any figures to back that up.

Mr. STENHOLM. No further questions. We thank each of you very much for your testimony today and the responses to our questions. Thank you for beng with us.

I call our last panel, the dairy farmer panel.

We will hear first from Marcella Wochnick, dairy farmer from Melrose, MN.

STATEMENT OF MARCELLA J. WOCHNICK, DAIRY FARMER, MELROSE, MN

Mrs. WOCHNICK. Thank you for inviting me. I feel greatly honored to have this position.

I am a member of the Stearns County American Dairy Association board, and also of Central Minnesota Agrowomen. So, therefore, I can speak for people in Stearns County.

I operate a dairy farm of 55 cows with my 20-year-old son since my husband died 5 years ago. I have a concern about how I would ever be able to turn this farm over to a young person with another 50-cent cut in that milk price that is supposed to come. There is enough money for living now but if I leave, he would have to pay me something and there would be nothing for him then.

I also wonder what will happen to the dairy farms that have been foreclosed on, whether it be land bank or the local bankers. These farms are sitting there with all the dairy equipment left in them, and when they can be sold, what is going to happen other than more expansion in these places, too?

And I will agree with the land bank people, these farms are more valuable to them to sell as dairy farms. But it will increase production some more.

And the whole-herd buyout, that has kind of left the country with a milk-poor situation in the South and a milk-rich situation up here. And looking back at it, it probably should have been done in a little different fashion so it would have equalized production to the area, to the consumption that it has. Now we have a real big problem in transportation, getting the product to where it should be.

Now, these big milk trucks that are on the road, they are equipped to handle milk and it would not spoil if it went from here to Texas.

And we do need to develop these markets, and then the supermarkets in the South would not be out of milk by 10 a.m., like we have heard many times.

We also need to change some milk marketing orders. At the present time our prices are based on what cheese is sold at in Green Bay, and that is not fair to us up in the Upper Midwest.

There is another concern, and this is not really related to dairy farming, but I have this. We are supposed to have some representation in Government, and then I wonder how come the Department of Natural Resources has no elected persons in its body, and yet year after year it is increasing in its power and it is making more and more rules by which we must comply, but we have absolutely no representation.

I thank you.

Mr. STENHOLM. Next, Mr. Bob Gee.

STATEMENT OF ROBERT L. GEE, DAIRY FARMER, MOORHEAD, MN

Mr. GEE. Thank you, Chairman Stenholm and Representative Stangeland, this has been a very interesting hearing.

I am Bob Gee, a dairy farmer from Moorhead, MN. Mr. Woodland, the president of National Farmers Organization, speaking in a Minnesota conference last week, said, "Farmers should stop complaining. We realize it is tough, but enough has been said about the tough things in agriculture. They should start looking for solutions to their problems."

With these thoughts in mind I am going to keep my comments in a positive vein and make some suggestions toward solving some of the hangups and problems facing the U.S. dairy families.

Since dairy removals by the Commodity Credit Corporation peaked in 1983 farmers and Congress have done some positive things to help the dairy industry. These actions have resulted in Government purchases being cut by over 10 billion pounds and consumption of dairy products to rise 10 billion pounds of milk equivalent.

We have made an excellent progression as far as the surplus is concerned. Where we are failing is in the price for milk to the producer and the price of milk products. The price to the farmer keeps lowering while his costs keep mounting. We think the dairy industry is plagued with problems today, but without a Diversion Program, a mandatory checkoff for advertising and research, and a total herd buyout, I am sure a word has not been devised that would describe our problems and situations, what they would have been.

It is difficult to make a meaningful evaluation of where production, consumption, and price would stand today without the actions which were taken by dairy farmers, processors, and Congress.

I believe that the Dairy Termination Program was a general success. It worked well, with the exception of cow country, which is California, Oregon, and Washington.

Before the dairy industry is eroded further here in the Midwest some thought may have to be given to having a lower support price in California, perhaps a difference equivalent to the cost of shipping butter from the west coast to the Chicago market. There is California butter being offered in the Midwest now for 5 cents below the support price. This situation is going to ruin the dairy industry as we have known it in the Midwest.

I have one more thing that I want to comment on before I conclude my remarks. There is a proposal coming before the U.S. Congress that would increase the assessment to producers for promotion in lieu of the January 1, 1988, price cut of 50 cents. I believe, like most dairy farmers would agree, that this would be a step forward. Where I question the present reading of the proposal is as follows:

> All funds resulting from the increase in promotion assessment shall be provided to * * * State and regional promotion organizations to he pooled by those organizations solely for national advertising purposes.

Three years ago Congress established the National Dairy Board so dairy producers could have a promotion and research program that was carried out by dairy farmers on an equal representative basis and cover all the contiguous States of the United States.

Now we have a proposal before that same Congress that would acquire an additional $70 million for national advertising, but are they proposing to direct these dollars to the National Dairy Board to enhance their advertising program? No. The proposal directs this $70 million to State and regional organizations, who are to pool these funds solely to develop their national advertising program.

It is further proposed that an additional 5 cents could be assessed from producers to make a total assessment of 25 cents, of which 5 cents would go to the national board. I think the National Dairy

Board's track record is better than this proposal indicates. Thank you.

[The prepared statement of Mr. Gee appears at the conclusion of the hearing.]

Mr. STENHOLM. Next we will hear from Mrs. Marlys Sopkowiak.

STATEMENT OF MARLYS A. SOPKOWIAK, DAIRY FARMER, FOLEY, MN

Mrs. SOPKOWIAK. My name is Marlys Sopkowiak. My husband and I own and operate a 40-cow dairy farm in Benton County. Since 1980 we have been concerned about the number of midsized family farmers who have either been forced out of dairy or bribed out of it.

We see two threats: technology and politics. Dairy farmers have been displaced by advanced technology in genetics, feeds, veterinary science, and computers. Now the introduction of bovine growth hormone has been advocated by its manufacturers as a means of making the good managers even more efficient. In reality it is a means to shake out more farmers, leaving the market to a smaller number of farmers or corporations.

Farmers have turned to the Federal Government for help and, yes, the amount spent for agriculture has increased. But corporations and big agribusinesses have received the lions' share, not the family farmer. When we question why we import so much casein from Europe and sell so little food and manufactured goods to Japan, we are given some vague answer about free trade.

The fact is that Europe and Japan do not need to spend money on defense because we do it for them. If they had to pay us to defend them and pay to protect their interests in the Persian Gulf, they would not have the money to wage economic war on the American farmer.

When we complain that Third World farmers are taking our markets we are told that we must be more competitive. But how can we compete with people whose yearly living expenses are less than what we pay in real estate taxes alone?

When we complain that factory farms in the Southern United States are paid more for milk than we are, we are told that they deserve more because they have higher production costs. Would not fair competition dictate that we should be allowed to dry our milk down, ship it to Florida, and reconstitute it if economically feasible?

Would not that be fair competition? Would not that be better than allowing an Irish corporation like Masstock International to produce subsidized milk? The factory farms in the South are already being subsidized by Midwest grain farmers who are forced to sell grain at less than cost of production.

When farmers have come to you in the past asking for limits on production, as most of the feed grain programs have done, we are told that our base will be determined by how much we have planted in the past. Farmers who limited the amount of corn they planted and practiced soil conservation by leaving some land in forage are now the ones who are being penalized by having a smaller base.

Some dairy farmers are anticipating a quota system for dairy and are expanding their herds to increase their base, thus defeating the Dairy Termination Program. If quotas or supply management are imposed, please do not reward those who have expanded in the past few years. You would only be encouraging surplus production.

Dairy farmers who have maintained relatively constant production should not be penalized with these 50-cent cuts. Would not fairness dictate that those who are increasing their herds be the ones to pay the cost of surplus production?

What I am asking for is a system that is democratic enough to allow all of us who are still in farming to remain in farming, not a system that continually tries to shake out people at the bottom so the ones on the top can get fatter.

I am asking you to consider a system whereby each producer, be it an individual family farmer or a corporation be paid a good price for the first so-many pounds of milk, with any extra production to be sold at market value. This fair minimum price can either be accomplished through the market place or through Government subsidies. But unlike the unchecked subsidies of the 1970's, which only encouraged expansion, this plan would limit expansion. Those who did expand would do so at their own risk.

Yes, the large producers will complain that it is not the capitalistic way. But they never complained about Government programs which have given them an unfair advantage. It is time we recognize that unchecked competition ultimately leads to an ag economy which benefits a few landowners and cattle barons, making the rest of us into peasants.

Putting control of production into fewer and fewer hands may be profitable for a few in the short run, but not good for American consumers in the long run. The airlines are a good example of mergers not benefiting the people. By depending on a smaller and smaller number of farmers for our food supply we are increasing the chances of foreign investments eventually controlling our food supply, and we are encouraging monopolies which will eventually charge the consumer more for food.

Congressman Stangeland, the Democrats always accuse the Republicans of favoring big business. Please do not pass them the ammunition. Democrats, this is your chance to prove that you really are for the individual and not big business.

Consider a plan which would put the individual family farmers ahead of agribusiness. Do it not only for us, your constituents, but for the American consumer.

Thank you.

[The prepared statement of Mrs. Sopkowiak appears at the conclusion of the hearing.]

Mr. STENHOLM. We will now hear from Bob Stommes.

STATEMENT OF ROBERT W. STOMMES, DAIRY FARMER, FOLEY, MN

Mr. STOMMES. Mr. Chairman, Mr. Stangeland, I am a dairy farmer in Benton County, farming with my brother Charles. We

have 75 cows. We are very concerned and depend on the price of milk.

We along with most dairy farmers in our area strongly support another Whole Herd Termination Program.

Being on the ADA board, I am aware of the importance of advertising. Per capita consumption for dairy products has and will increase. However, the law of diminishing returns will set in. Continued increase in per capita consumption will to a large extent depend on new types of products derived from dairy products, and their method of merchandising. This is a slow process.

We are producing milk for only domestic markets, leaving no room for expansion in the foreign markets because of subsidies and foreign monetary ruling. In other words, we have an inelastic demand situation.

Yet, on the other side, we have an elastic supply situation. Predictions are that milk production per cow will double by the year 2000. Technology in the dairy industry is only beginning. Just to mention a few, are the bovine growth hormone, embryo transplants, sexed semen, genetic alteration of livestock to bypass traditional breeding practices to instantly produce livestock variations through genetic manipulation, improved use of computers, and improved feed and feeding practices.

The existing potential to increase dairy supplies spells disaster for milk prices and for the family dairy farmer. The Whole-Herd Termination Program is not a cure-all, but it reduces production potential. We fully support another Whole-Herd Terminaton Program of the same size as the last one. Furthermore, in implementing the program it is important to give all dairy farmers a fair chance at bidding by using current or last year's milk production bases and not using old production bases which do not reflect the farmers' existing potential.

Thank you.

Mr. STENHOLM. Next, Cyril Scherer.

STATEMENT OF CYRIL G. SCHERER, DAIRY FARMER, FREEPORT, MN

Mr. SCHERER. My name is Cyril Scherer. I am a dairy farmer in partnership with my 29-year-old son. We milk a little over 100 cows together; we hire a little part-time help. I am active in the Minnesota Farm Bureau Dairy Advisory Committee, both on the State and national level.

Last year I was assessed over $90 per cow in order to cover the cost of herd buy-out and milk promotion. On our farm this amounted to over $10,000. The result of both of these programs has been better than expected. Even with the price cuts and the assessments I was paid almost the same in 1985, 1986, and 1987 from the plants.

Plants are paying over the support by more than 50 cents now for the first time since 1979, and sometimes as much as $1 over. The years of 1980 through 1986 the manufacturing price was 17 cents to 47 cents minus the support.

Even the price of beef went up during and after the herd buyout. The price of dairy feeder steers is at an all-time high in Minnesota, since there are now 1½ million less dairy animals to raise calves

from. The herd buyout also stopped a lot of product from going into CCC storage. When CCC storage is low it will quickly reflect on the market price.

Let us look at the dollars saved by not having to buy an additional 7½ billion pounds in the coming year. Nationwide replacement heifer numbers are too high, though. Milk production may again start moving up. Buying off some of the production before it is produced is still the best way to go, either by buying out farmers or the cows or the heifers. Quota systems do not do what they are intended to do. Quota systems quickly put little farmers out of business. See the attached "question of quotas." That was put together about 2 years ago.

Dairy farmers in central Minnesota have rather small farms. Many of us do not have enough acres to put any land in the set-aside program. Even those that do use the program this year are penalized by the loan program if they want to store their feed wet. This is the cheapest, most common, and in most cases the only storage for lots of the dairymen for their corn crop.

I think the 10-year retirement program is very good at this time.

Government dairy programs need to be related to the national production level. As a Minnesota dairyman I feel we can produce milk as efficiently as anywhere in the United States. Large numbers of dairy farmers on small acreages serve the conservation needs of our soil best. Dairying has been the mainstream of the central Minnesota area and it looks to me like it will continue to be that way.

Thanks for the opportunity to appear here.

[The prepared statement of Mr. Scherer appears at the conclusion of the hearing.]

Mr. SCHERER. Now, I have been receiving quite a few phone calls, in fact one from 100 miles away, after I had prepared this material. And I think it is more or less a question to the Ag Committee or to Congressman Stangeland. What if anything is going to be done about this reproductive expensing for replacement dairying animals? That is just a real pain in bookkeeping and accounting for our size of dairy operations.

I read an article in The Farmer that there is a bill being presented now, and where do we stand on that?

Mr. STANGELAND. Thank you, Cyril. That is going to have to be addressed by the Ways and Means Committee. Ways and Means is the committee that writes all tax legislation, and many of us that represent farm constituents, and especially in the livestock business, are lobbying to get some sense put back into that. I cannot tell you where it stands right now. It is in the Ways and Means Committee. I would anticipate that they will have out this year some tax change bill, and when they bring out a tax change bill it is a major package and everything that they look to wanting to change, whether it is increased taxes or change current tax law, will be in a part of that combined bill.

Mr. SCHERER. It seems hard to get any information on how you are going to do your taxes this coming year, at this point.

Mr. STANGELAND. Do you want to respond to that, Charlie, at all?

Mr. STENHOLM. There is a reasonably good chance that it will be in the technical corrections bill to the 1986 Tax Reform Act.

Mr. SCHERER. Some of us are in a computerized bookkeeping system and there is no way those people know what we are doing.

Mr. STENHOLM. You are really fouled up. I think we have a reasonably good chance of getting that in a technical corrections bill.

Mr. STANGELAND. Bob, are you still chairman of the board of Cass-Clay?

Mr. GEE. I am not chairman but I am on the board.

Mr. STANGELAND. OK. You talked about the cow country a little bit. So I am kind of curious because, what does it cost, what is the difference between the price of Cass-Clay butter in the Chicago market and the price of California butter in the Chicago market?

Mr. GEE. Well, I would be guessing at what it is but Don is here. Maybe you could answer it?

Mr. OMMODT. Sure.

Mr. GEE. Would that be okay?

Mr. STANGELAND. Yes. Don Ommodt, the manager of the Cass-Clay Creamery. I am just trying to get an idea of the difference in price between California butter being offered in the Chicago market and say, Cass-Clay butter from Fargo, North Dakota, being offered in the Chicago market.

Would you identify yourself too, Don, please, for the record?

Mr. OMMODT. Yes. I am Don Ommodt, president of Cass-Clay Creamery in Fargo, North Dakota.

Last week, before the market dropped—and the market did drop quite a bit yesterday, so there has been a major change just in the last couple of days. But before that market drop we were offered butter at roughly 5 cents below what the going price in the Midwest was, f.o.b. California. So the price ratio seems to be running about 5 cents a pound difference between California and Chicago.

The Chicago market would be roughly the same as the market in this area, so we are not really talking about much difference between here and Chicago; maybe a penny or two.

Mr. STANGELAND. Thank you. I just wanted to point out for Mrs. Sopkowiak—did I say that right?

Ms. SOPKOWIAK. Yes. Close.

Mr. STANGELAND. Interestingly enough, when we were marking up the 1985 farm bill, I had a proposal that I introduced as a piece of legislation that was sent to the dairy subcommittee, that created a three-price system for milk, for dairy farmers. I was figuring that maybe we would get a two-price system, I think there were other members that had a two-price system, but I am the Republican. The chairman of the committee at that time was Tony Coelho from California. And guess who supported the big factory dairies and who supported the little dairy farmer? There was a role reversal and the Democrat had the big dairy farmers. You could not expect him to do anything else. And of course, in that battle we came up with a dairy program that was less than the two-price system. But, as you heard the chairman, and I hope it has been educational for this audience not only to hear the witnesses but to hear the chairman respond. Because I happen to know that Charlie is very sincere and honest and if he says it here he will do it in Washington, or he will try to do it in Washington. So I think it is a good experience for you.

Charlie, I just want to take this opportunity before we go to the informal witnesses, and we both have a tough schedule to maintain, to thank those who came and thank those who testified. Because I think this has been very helpful to us and it is not often that we get a chance to have this kind of an official Agriculture Committee hearing out in my district. Thank you very much, Charlie.

Mr. STENHOLM. Mr. Gee, I could not agree more with your quote by Mr. Woodland that we have to start looking for solutions to our problems. I think it is very important that we talk positively about various solutions.

Also, I believe that what you were saying regarding the promotion, that you would encourage any additional promotion fees to be run through the National Dairy Board rather than having them go to regional associations for purposes of increasing the national effort. Were you there testifying in favor of the monies going to the National Dairy Board?

Mr. GEE. Well, I would think that if we were going to have promotion dollars going to the national program, that they would be probably run by the National Dairy Board.

Mr. STENHOLM. Are you recommending that? That is what I was saying.

Mr. GEE. Right. Right.

Mr. STENHOLM. OK. Marlys, you were one of only two witnesses today that mentioned technology and BST. The consumer reaction to BST is going to be one that has got to be looked at very carefully.

Are there any comments from either of you concerning the two options that I mentioned earlier. I know you do not wish to see a price cut. I accept that. But if projected CCC purchases are over 5 billion pounds in 1988, there is going to be a 50-cent price cut.

Mr. SCHERER. I would like to comment on that. There are a certain amount of people, especially on my county ag. committee that feel the best thing that could happen to us, if we had a 50-cent price cut. National Milk will not agree with us. It will be toughest on the processing end of the industry, not on the farmers. They are out there fighting, we are getting all sorts of fringe benefits to sell our milk to particular plants. The competition is very keen.

The best signal perhaps to the whole industry is a 50-cent price cut. It stops this thing that you are trying to talk about, of people increasing production. I have seen a neighbor, since we have started putting out our quota material and such, that reduced his herd by 20 cows. It was over 80 cows for a young man who was having a tough time. He is now milking 60 and he is doing a darn sight better.

I think the philosophy has not always been exactly as it is on the farm level. Industry wants to see us maintain our production because our plants are not full. We are going to lose some plants if we have a price cut, because they have to pay possibly better than their competitors to survive, to maintain enough capacity to be efficient. So that is a two-way street.

I have people that are not here, that think harder than I do that the best thing could happen is a price cut. I have not seen that much reduction in my pay check with the assessments. I have been

given quality premiums, plant premiums. I am on the lowest marketing order level price scale there is in Minnesota. We have a 6-cent-minus, yet I am paid within 20 cents of the people in the northeast U.S. I talk to dairymen in Pennsylvania, and Vermont, they have no competition. They have one plant or two to sell. Their market order price is about 80 cents higher than ours. These people are not receiving that type of money. They are paying again as much to have their milk transported from their farm as I am.

So I do not agree with some of these things.

Mr. STENHOLM. So you would recommend that if the Secretary does in fact project purchases of over 5 billion pounds, to take the 50-cent price cut and not envoke an additional assessment for national promotion.

Mr. SCHERER. I am not certain it has as much impact as you say it has. I think of all the things that I would like to see—and we brought that up over 2 years ago—we would like to see industry match us dollar for dollar on promotion. And if you want to raise that, I am 100 percent behind you. I think it is the most proper route to go.

And some of this money should be going into research for new products. We can do an awful lot more with dairy products if they are developed into further uses, especially for our neighbors down South and Mexico. Thank you.

Mr. STENHOLM. Thank you.

Mrs. SOPKOWIAK. I see the need for advertising, but I wonder about having industry match us dollar for dollar. Maybe industry should kick in a little bit more, because they are able to pass those costs on to consumers and we are not. So maybe when the farmer kicks in a nickel, maybe the Kraft and Land O'Lakes should kick in 10 cents. They pass it on to the consumer anyway.

Mr. STENHOLM. What about the option on the price cut? You testified very strongly in opposition and what it would do to you.

Mrs. SOPKOWIAK. Well, July would be the lesser of two evils but I think the best solution would be to put a dollar cut on the people who have increased production, and leave the rest of us alone.

Mr. STENHOLM. Unfortunately, that is not going to be one of our options. But I did ask you for a third option.

Mrs. SOPKOWIAK. I thought you were all-powerful.

Mr. STENHOLM. I think we are talking about the "Garfield theory" right now. If you are going to cut 4 inches off Garfield's tail and you ask him a question, do you want an inch at a time every month for 4 months or do you want one cut, he is going to take one cut. That is the Garfield Theory. Mr. Gee?

Mr. GEE. Well, keeping in mind that you only have the three options, I would take the option that it come in July and that 10 cents be exchanged for promotion.

Mr. STENHOLM. Mrs. Wochnick.

Mrs. WOCKNICK. I also would take the 10 cents, but like you had said earlier, make industry match it, 5 cents for promotion and 5 cents for private labeling. Because I think out of that we would not get 10 cents' value. We would get 20 cents' value, because most of the time when they add something to it and you multiply it, it doubles.

Mr. STOMMES. I would go ahead on the third option, too, that we prolong until July 1 and see what happens and then, as far as advertising, the matching, I think we maximize the mileage of all of our dollars that way, and I think that is the best of the alternatives that we have.

Mr. STENHOLM. I want to be sure everybody understands our real options in this area. First, there is no way we can slip the entire 50 cent price cut. All of you have recommended avoiding that 50-cent cut, but that is in the 1985 farm bill and it would be very misleading to anyone here or anywhere in the country to suggest that that is possible. The votes are not there on either side of the aisle to make those kind of changes. There is strong opposition to opening the 1985 farm bill.

Thank you very much, each of you, for your testimony.

Now, if there is anyone in the audience that would like to ask a question or make a statement, we would be glad to hear from you.

STATEMENT OF RAY J. ANDERSON, DETROIT LAKES, MN

Mr. ANDERSON. I am Ray J. Anderson, Detroit Lakes, MN, sir. I have been around the agricultural landscape for over 70 years as a longtime farmer. I came to listen and learn and I have learned much. But after hours of listening one possible solution has only been mentioned once.

Very little has been said about imports; quite a bit of mention on exports. I have long advocated legislation making mandatory requiring all food imports to meet the same quality standards as our domestic producers must comply with. Let us not feed our people garbage, imported or domestic, and this goes for dairy, meat, or grain. Also, this policy should be a two-way street and apply to our exports, especially in the grains. Thank you very much.

Mr. STENHOLM. Thank you very much. I could not agree more.

Mr. ANDERSON. May I add one additional point?

Mr. STENHOLM. Surely.

Mr. ANDERSON. I believe that this would reduce our imports very dramatically because we have heard testimony clear back when Metcalf was Senator from Montana, I believe it was—I have been around this landscape quite a while, as I said—and he pointed out we import maggot-infested meats, we import substandard dairy products, all kinds of stuff. Let us clean it up.

Mr. STENHOLM. Unfortunately, that latter statement is not true. Imported meats do have standards. Granted, they are not perfect. We are now under a threat—it is not just a threat, it is a promise—by the European Economic Community that as of January 1 they will cease to import all meats from any country that continues to use growth hormones in cattle production.

There is no scientific basis whatsoever that the hormones that we use in this country are bad for human health, but the proposed ban is going to occur. It will cause an estimated loss of $140 million to the U.S. beef producers. So we need to make certain that we have reciprocal inspection, both on that which comes in and which we export. I believe that is the spirit of your statement. We appreciate that.

STATEMENT OF BURTON OLSON, COUNTY DIRECTOR AND AGRICULTURAL AGENT, AGRICULTURE EXTENSION SERVICE, BENTON COUNTY, MN

Mr. Olson. I am Burton Olson, county director and agricultural agent in Benton County for the Minnesota Extension Service. I have been sitting in the audience this morning and every once in a while I feel like the West Texas Indian who was sending up smoke signals and on the other side of the mountain all of a sudden they set off an atomic test, and a mushroom-shaped cloud rolls up over the mountain. And he turned to his partner and said, I wish I had said that.

A number of the comments that were made I would certainly support but the comment that I would like to share with you quickly at this point is one that probably is not an option at this point, but maybe sometime in the future, and that is to consider a voluntary supply management program. Those who voluntarily participate in this program would be guaranteed a support price of a stated amount for, let us say, base production. And the product price would be determined by free market forces. If market prices would fall below that support or guaranteed price the participants in the program would receive a direct payment of the difference, and they would also be penalized if they would market above that base or quota.

Purchase and storage by USDA would terminate completely. Those who choose not to participate in the program would receive whatever the market would pay.

The advantage of this kind of a program in my perspective would be that it is voluntary, and that would eliminate negative attitudes about controls. I believe it would be less costly to the taxpayers, consumers could benefit by lower dairy product prices in the grocery stores, and participants would be motivated to produce their quota or base at the lowest possible cost and be rewarded then for efficiency. At the present time they are to some degree penalized for efficiency because increased production results in a reduction of the price, as has been mentioned a number of times in the discussion this morning.

Another thing, it would eliminate the criticism that is often heard of educators who are sometimes presently accused of increasing the problem of excess production.

We cannot continue to support the price of a product without some kind of a control on the amount of production. I do not think even the Federal Government could do that. Other countries of the world have gone to quota systems and I have visited with dairy farmers in Sweden, in Norway, in England, just within the past couple of months and even though they are not completely satisfied with their system they like it better than what would be without it.

Too often, as up until now, in our efforts in farm programs we have tried to straddle the fence and support the price and avoid the negative attitudes about controls. Fence-straddling is never very comfortable, especially if it is of barbed wire. Thank you.

Mr. Stenholm. Thank you. I would comment that I personally think you are right on target when outlining future farm programs. We have got some examples which are working very well.

The peanut program, though not perfect, is an example of what you are talking about.

You are right on target. It is something I think we will be thinking a lot about in 1990 when we replace the 1985 farm bill.

STATEMENT OF DAVE LUSTY, DAIRYMAN, CENTRAL MINNESOTA

Mr. LUSTY. Mr. Chairman and Congressman Stangeland, I am Dave Lusty, a central Minnesota dairyman. Joe Kenning and I are both up here on the issue of the stray voltage problems. Congressman Stangeland has met with us a number of times on this. Those that are not aware of what we are talking about, stray voltage is determined as small amounts of shock or electrical current affecting dairy animals. We have been trying to get this corrected for many years and we have not been able to get corrections.

I would like to update you a little bit on some of the things that have happened lately. The last 3 days I attended an Electric Power Research Institute Seminar held in Minneapolis. Most of the people that were there were utility people that were there to learn what took place, out of the 16 studies that were done out of New York, that were released in July.

The studies were done in many different areas. Denver, Colorado, got the most publicity because that was the one on childhood leukemia, of course. And they still do not have very many answers. After spending $5 million I guess it irritates me in some ways. Dr. Dahlberg from Concordia College has worked with us on trying to get answers on this stray voltage problem with our dairy cows and he has been funded a total of $27,500, and he is ridiculed for not getting us answers, and these other people can spend $5 million and still not come up with any real answers on the cancer and leukemia thing.

They have many indications that low level electrical fields are causing cancer. They have not worked with immune systems. They have only worked with the human cell, or cancer cell, and what takes place with that. A Dr. Robert Becker from Syracuse, New York, and a Dr. Andrew Marino from Louisiana have worked with the immune system for many, many years and have determined that these low level electrical fields affect the immune system, and therefore all diseases could be contacted because of the immune system going haywire.

But after being at that seminar for 3 days, it was very obvious that the main purpose of that seminar was to tell the electric utilities how they could go home and handle the questions that people have on, hey, am I going to die from cancer? I mean, can you come out and measure this electric field, this magnetic field in my home?

It is mostly to homeowners, of course, that they do deal with. The two classes of people that got ridiculed were the farmers and the lawyers, and they were ridiculed many times because of the fact that there have been a few stray voltage lawsuits against the utilities. And the way they tried to put it was that these farmers ought not to have been farming anyway, because they did not know how to take care of dairy cows. They were not very nice about their statements there, and I was the only dairy farmer there so I had enough sense to keep my mouth shut. Most of the time, anyway.

We had many occasions in the evenings to talk to these researchers and the people that decide on what projects are to be studied. And there is a large group of people that are doing this. In private conversations with them, indicated that they are only touching the tip of the iceberg, that animals are very definitely being affected and whatever. But what they have been able to prove so far is very little. But when they stood in front of that microphone, they appeared to be hired by the utilities. And I guess to a certain degree it had to be handled that way, because of the questions from the public and the consumers and whatever. But it is quite irritating when one has been working with these problems for a number of years.

Dr. Carpenter from New York was there, from the New York Health Department, and he was the head of the studies, he and, it was a nine-person committee that had overseen these studies and made a general report at the end of what they felt should be done or should not be done. Of course, one of the main things was continued research.

The other interesting thing was, one of the things that we farmers have been saying for a number of years now, a possible change in design of distribution systems. I thought that was very interesting. That was one of the six things, recommendations that they came up with.

Mr. STANGELAND. It would be helpful if you would turn over the names of the scientists that presented papers there that you thought most fit in with the problem that we are working on. I think the Department of Agriculture would be interested in that.

Mr. LUSTY. I have got the whole book right here that we got, every answer.

Mr. STANGELAND. That is fine. You are aware that someone has been out from the Department——

Mr. LUSTY. Yes.

Mr. STANGELAND. Talking to the University of Minnesota people and to Dr. Dahlberg. And we have not heard from them about how they feel about developing a test facility, but we will be pursuing that and I would like to have some of that information for them.

Mr. LUSTY. Again, them same people from the USDA that were out had conversations with the utilities too and I am sure the conversations were not in favor of Dr. Dahlberg's project. Because even though the utility boards in some cases will vote to support this project, the utility managers themselves will go ahead and try to bad mouth us or whatever you want to call it; not support it, anyway.

Oh, one other thing. I would like to bring out, we did get some good things out of this seminar too. There are a couple of new instruments that have just been devised for measuring electric and magnetic fields. And they were shown to us and I think they will be very important in the future for us.

We had our first meeting of the State Advisory Board, which I did get appointed to, for the state funding that came out of the State legislature last winter. We had that on Thursday morning down at the Department of Agriculture too. That, we felt, went real well, too.

STATEMENT OF JOE KENNING, DAIRYMAN, CENTRAL MINNESOTA

Mr. KENNING. I am Joe Kenning, and I have done quite a bit of work on this stray voltage. Actually, this summer we did one of a new test. We went to work and we took some dairy animals and we got them off the ground, 5 feet in the air. And they will produce, actually, up to one-third more milk. Just this past week we put a heifer up there and this heifer is increasing every milking, and the one on the ground does not increase. This morning, when she came in the parlor from the trailer, the milk just shot out of the cow's udder and the heifer on the ground will not do this.

Since 1979 we have worked on this problem. I am running a non-neutral-to-Earth system over there, so we are not putting any current in the ground at all over there. So this is a current center coming across country.

OK, we got a meter running. We put a wire in the air to a ground stick in the ground. This summer one time we picked up a spike to the ground from the power system as high as 60 volts. And we have up to 6 volts is pretty common. About every Thursday, it seems, then we get a shock through there like this. During the day and most of the time it stays down to 1 volt.

They even had our whole substation shut down and this voltage is still in our ground. And I am losing about $50,000 a year through lost milk production through this.

Mr. STENHOLM. I appreciate both of you bringing this issue to my attention. You have educated me about a problem that I did not know we had. I will be interested in working with Arlan to see if there are any possible solutions.

Next, sir?

STATEMENT OF BEN SUPAN, DAIRYMAN, EASTERN STEARNS COUNTY, MN

Mr. SUPAN. I am Ben Supan, eastern Stearns County dairyman. I have a couple of short questions.

On your dairy purchases, as I understand it, that is to take off the surplus, and then into lush time. How are you recording those purchases? Are those purchases at once, at the times of year the dairy manufacturers buy back from the Government, are those subtracted?

Mr. STENHOLM. Yes.

Mr. SUPAN. They are?

Mr. STENHOLM. Yes. We are talking about the net purchase by CCC of 5 billion pounds milk equivalent during 1988.

Mr. SUPAN. The advertising, I think that the farmer probably is the smallest in number contributing in the milk program itself. We have all these manufacturers, foremen, you name it, and I do not think they contribute 1 cent toward the advertising of the dairy products, and they make their sole income off of that. So I think these dairy companies should introduce some kind of a program so that the people that make their sole living off of milk should put some of their money into advertising, because that is their job. And the farmer is the sole one that is putting money into it.

On your military purchases of milk and meat, where do you decide where they buy their meat and milk from at different parts of the world, where we have military men stationed?

Mr. STENHOLM. It is usually a coordinated decision between the Defense Department and the Agriculture Department.

Mr. SUPAN. What you are saying then is, we will buy from a foreign country if it costs the military less than shipping our own food over there?

Mr. STENHOLM. That has been the case in the past. However, the policy is changing somewhat now.

Mr. SUPAN. My son is at a base in Amsterdam and they are buying meat from England, and here we have too much. That is the reason I asked.

On conservation, I commend your quote that you said there would be some changes on the people that were practicing conservation and are being penalized, and the others that reap the land are now getting the big corn subsidies or set-aside acreage. Thank for your time.

Mr. STENHOLM. Thank you for your comments.

STATEMENT OF DELPHINE SOBIECH, DAIRY FARMER, ROYALTON, MN

Ms. SOBIECH. I am Delphine Sobiech, and we have a 20-cow dairy herd, so I do not feel that I have been producing too much milk. However, I do believe that part of our problem is that we do not—the dairy farmer does not receive a direct subsidy. The subsidy is going to the processors and we are having a proliferation of cheese plants being built or being proposed to be built in our area. I think that this is going to send a signal to all of us to produce more, because they are looking for milk.

I think that as long as we continue to subsidize the processors rather than the producers we are going to have this problem. My problem is, I do not believe that with this Dairy Termination Program, I do not believe that it will in the long run work. I do believe that in time most of these people will be back with their additional payments, they will be back in dairy.

My objection to all of this—and I did want to state that I believe that the Dairy Termination Program was very, very unfair to the family farmer who did not produce a surplus of milk, and I resent the fact that the Government came in and deducted money from my milk check, which I believe is illegal, and I have investigated ways of getting a class action suit to recover my money from the Government, because I believe it is unfair and immoral, and there is no precedent in any payment of any subsidy for the Government to come in and to deduct that money from our check. I do not believe anyone else has received a deduction of a subsidy.

The only suggestion I have is, I would welcome any quota system or two-tier pricing system or anything of this sort, and I resent the fact that people tell us that we do not want a quota system or that we cannot work under this.

And I also think that if the support price was taken away altogether, that we would be a lot better off.

I realize that many processors are dependent on this, but when you talk about people getting out of the business it is too many processors rather than too many dairy farmers, because they are the ones that are causing the problem, and they are continuing to build.

But I did want to say that if, in fact, we are looking toward another Dairy Termination Program, yes, I definitely will participate in another dairy program of that sort, because I no longer want to be paying for others who are making money from it. Thank you.

[The prepared statement of Ms. Sobiech appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much for those remarks. I would hasten to add that there are those in the Seventeenth District of Texas that resent the fact that the Federal Government utilizes tax dollars to implement and maintain a domestic dairy program. But yet we in our wisdom have seen that a dairy program is necessary for the survival of the family farmer.

Ms. SOBIECH. But this was a double tax.

Mr. STENHOLM. I understand your frustration. However, I hope you will think twice before you bring about a lawsuit.

Arlan, any closing comment?

Mr. STANGELAND. Just again, I want to thank you, Congressman Stenholm, for coming here and joining me in this hearing and conducting the hearing. And I also want to thank Superintendent Don Anderson for the use of this facility, and thank all of you for coming.

I think it has been very educational and I hope that it has been educational for you as well. Thank you.

Mr. STENHOLM. Arlan, thank you for hosting this hearing. It has indeed been educational and informational to me. I appreciate all of the witnesses, and those of you who have attended.

This meeting is adjourned.

[Whereupon, at 1:04 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Statement of J. Darwin Carter
Assistant to the Administrator
Agricultural Stabilization and Conservation Service
U.S. Department of Agriculture
before the
House Committee on Agriculture
Subcommittee on Livestock, Dairy, and Poultry
October 3, 1987

Mr. Chairman and Members of the Subcommittee, I am J. Darwin Carter and I am happy to be able to appear before you today to review the status of the Dairy Termination Program (DTP).

In brief, the DTP currently has worked about as expected. The DTP cattle have been slaughtered or exported; milk production has been down; Commodity Credit Corporation (CCC) purchases of dairy products have been below a year earlier; milk prices have been above the support level and the meat purchases required to be made to minimize the effect of the DTP have in general been on schedule.

Milk Production, Prices, and CCC Purchases

Milk production in Fiscal Year (FY) 1986 totaled 145.6 billion pounds--3.9 percent above FY 1985. However, much of that increase came during the first half of the FY before the beginning of the DTP. Since then, production has dropped through July, and production in FY 1987 likely will be about 3 percent below 1986.

Calendar Quarter	Year	Milk Production (Bil.Lbs.)	Percent Change from Year Earlier
October-December	1985	35.424	+9.2
January-March	1986	36.172	+7.5
April-June	1986	38.350	+2.5
July-September	1986	35.610	-2.9
October-December	1986	33.947	-4.2
January-March	1987	34.877	-3.6
April-June	1987	37,341	-2.6
July (21 States)	1987		-0.3
August (21 States)	1987		+1.0

The number of milk cows in the United States on June 1, 1987, totaled 10,400,000, a record low.

The Nation's dairy herd has been reduced by 1.5 million head of cows, heifers and calves as a result of the DTP, a program partially funded by dairy producers themselves.

Heifers for milk cow replacements totaled 4,500,000--down 100,000 from a year earlier. This is a ratio of 43.3 heifers per 100 cows. While this ratio is up from 42.2 on June 1, 1986, it is below the ratio of 44.5 on June 1, 1985. Replacements, however, are sufficient to result in expanded production in the months or years ahead.

Even after adjusting for seasonal variations in milk production, CCC purchases of dairy products have dropped and milk prices have increased as a result of DTP.

Manufacturing grade milk prices during October-December 1986 averaged $11.89 per one hundred pounds--29 cents above the $11.60 support price. In January-March 1987 the price averaged $11.48, 13 cents above the current $11.35 support price. In April-June 1987 (the months of greatest milk production) the price averaged $11.18 per one hundred pounds -- 17 cents below the support price, but the July-August average was $11.34, indicating a strong increase in the months of shorter supplies.

CCC purchases of dairy products during the first 11 months (October 1986-August 28, 1987) of this FY have totaled about 5.1 billion pounds, milk equivalent, compared with 12.1 billion pounds during the same period a year earlier. Purchases totaled 12.3 billion pounds in FY 1986, and we are now thinking they likely will total about 5.3 billion pounds or so in FY 1987.

Milk production levels and CCC purchases during the remainder of the 1985 Food Security Act will depend upon the decisions made by dairy farmers.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions from the Subcommittee Members.

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TESTIMONY OF REP. STEVE WENZEL, CHAIRMAN, HOUSE AGRICULTURE COMMITTEE, STATE OF MINNESOTA

Chairman Stenholm, Congressman Stangeland, and Subcommittee members, we are grateful that you have allowed time in your busy schedules to hear comment from the heart of Minnesota's dairy country. This hearing today is a tribute to your good judgement and concern. As Chairman of the Minnesota House Committee on Agriculture, and as one who is deeply interested in farm issues and the rural economy, and especially the dairy issues, I wish I could be with you at the hearing in Melrose. Unfortunately, a previous commitment to hold open office today for my constituents makes it necessary to convey my thoughts to the subcommittee in writing, and I have requested Rep. Jeff Bertram, member of the Dairy and Livestock subcommittee of the House Agriculture Committee, to present my testimony. I trust that you will be responsive to the public testimony from these hearings.

I have served 15 years years in the Minnesota House of Representatives and 6 years as Chairman of its Agriculture Committee. More importantly, I was born and raised on a dairy farm and come from Morrison County, the third largest dairy producing county in Minnesota. Stearns County, the County you are in today, is first in Minnesota in dairy production. There are 18,500 dairy farmers in our state and 900 in Morrison County. There were 26,000 dairy farmers in our state and 1,200 in Morrison County in 1983.

In Morrison County, 900 dairy farmers are milking approximately 30,000 cows, an average of 33 cows per dairy farm. These are small and medium sized farms whose owners are struggling to earn a living and support their families and the communities that depend on them.

Members of the committee, my purpose in coming before you today is to strongly urge you to adopt federal policy toward dairy farmers that seeks to help them stay in business, and, in the process, to help this country to continue to be the greatest producer of food on earth.

Your decisions have determined and will continue to determine the survivability of the independent family farmer owner and operator.

Because of your tight schedule and the limited time availabe for pubic testimony, I will review here only a few of my concerns for American family farmers in general and dairy farmers of Minnesota and the Upper Midwest in particular. Too often it seems that Congress and the current administration manifest a callous disregard for the needs of this vital segment of our society and economy.

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Contemporary American society owes much of its heritage and value system to family farmers of the Midwest. Family farming in Minnesota is an honorable way of life that needs and deserves continued support at both the federal and state level. Farming is more than a job -- it is an ongoing testimony to the value of hard work, healthful living, and high moral standards. For our government ot abandon honest, hard working farm families in an environment of high costs and low returns is cruel and unreasonable. Specifically, we are offended that current federal dairy programs are tilted to give unfair advantage to huge corporate farms of the West and South. This inequity is patently unjust. I urge your careful consideration of the following measures to assure that Minnesota dairy farmers will survive as family farms to providing the state and the nation a highly nutritious, reasonably priced component of the American diet.

Before I make my recommendations, I want to point out that there are several unique aspects facing Midwest and Minnesota dairy farms.

- Milk production costs in Minnesota and the Upper Midwest are inherently higher than those in the South and the Far West. Dairy stock require expensive shelter and increased feed to survive in our rigorous winter climate. Costs for those items are not compensated by a differential support price for milk produced by Midwest dairymen.
- The vast majority of Minnesota and Midwest dairy operators are family farmers. As such, they cannot realize economies of scale availabelt to huge corporate dairies located in the West and South. Family farming is a way fo life and livelihood that needs and deserves support and continued encouragement.
- Many dairy farmers in the Midwest simply will not be able to remain in operation if they are faced with further reductions in the support price of milk. Forcing these dairymen out of business in these times of high unemployment will surely result in increased burdens on state and federal taxpayers as well as the disruption of established farm families and severe financial distress for farm families and the communities that depend on them.

My recommendations to you are as follows:

The federal commodity credit corporation should continue to act as the purchaser of last resort for butter, cheese, and nonfat dry milk powders. This action controls dairy product flow to the market and prevents serious price dislocations for both producer and consumer. The price paid by

Commodity Credit Corporation should remain reasonable and predictable. Support prices must not be reduced further. Support levels were lowered on Thursday of this week. There is absolutely no need or justification for the further reductions of $.50 per hundredweight scheduled for January first of 1988, 1989, and 1990. We can not express strongly enough our belief that you, as congressmen on the dairy subcommittee, must spearhead the drive to block or reverse these proposed cuts. If dairy product stocks held by CCC reach excessive levels, the excess should be disbursed in such a way that it does not exert downward pressure on the market price of fluid milk or processed dairy products. Acceptable uses for CCC surplus stocks might include greater foreign food aid, school lunch programs, and commodity give-away programs for poverty level Americans.

Large corporate dairy farms should be excluded from all federal dairy assistance and support programs. A reasonable method for eliminating assistance to inappropriate producers would be to cap federal dairy supports for any one dairy unit to the level needed to profitable maintain a dairy herd of approximately 50 head or to generate $50,000 per year of operation per family unit.

Regional Grade A price differentials should be eliminated immediately except in those few cases where local fluid milk production cuts are extremely high and the local demand for fluid milk could not be met without price gouging. In fact, the whole concept of federal milk marketing orders should be thoroughly reexamined in the light of economic efficiency and equity for traditional dairy farming regions of the nation.

Mr. Chairman and Members of the Committee, I would also urge this committee and the congress to more aggressivley pursue an export policy for dairy products for distribution throughout the world. It can be done. The expressed concern for the rise in government pruchases and storage of dairy products seems not a valid one when you consider the enormous numbers of starving people in the world -- and the hungry people in this country. This country -- with its wealth of food products -- could help alleviate such suffering, develop more export markets for agricultural products, and gain influence in the third world. This subcommittee should also report out legislation banning casein imports on foreign dairy products which would guarantee that such imports would not place our nation's dairy farmers at a competitive disadvantage. What we need today is new export policies to be in place for U.S. dairy products. This government, as it has

done for other product, should construct an export program for American dairy products. This can be done by requiring all of the federal cabinet agencies such as the State Department, the Defense Department, and the Commerce Department, the Education Department, to cooperate with the Agriculture Department in the implementation of such an export policy of dairy products. This can be done with competitive and fair export trade policies. We need, simply, to bring the dairy products of this country to markets that are there all over the world. It is small wonder there is a dairy surplus when you have in effect, limited the efficiency and genius of America's dairy farmers to our own people and denied them access to the four billion people who live on this earth.

As you are well aware, funding school lunch and school milk programs has been severely cut in recent years. Your subcommittee should be leading the charge to restore full funding to this essential program of child nutrition. Milk should be equally available to all children in every public and non-public school. The benefits in a healthier population far exceed the minor costs involved in the program. Consumption and increased availability of milk in our nations schools is a natural market for our dairy farmers.

The federal whole herd buy-out program is now behind us, but the debate will probably continue for years about the degree to which the buy-out was directly responsible for the slump in milk production during the past 6 to 9 months. At this time, the most responsible action we can take is to enthusiastically support adequate market prices for dairy farmers and work to see that surplus dairy products are distributed to those consumers where they will be most beneficial. The 18,500 dairy farmers remaining in Minnesota today need and deserve the opporltunity to keep efficient, family scale pro duction units in operation. Your sensitivity to their needs will go a long way toward retaining a way of life for 30,000 families and an economic vitality that Minnesota needs.

Mr. Chairmanand members of the subcommittee, the 1981 and the 1985 Congress and the Reagan administration already passed more legislation reducing the income levels of dairy farmers more than any previous congress or administration in the history of this country. In April, 1981, former U.S. Agriculture Secretary, John Block, pushed for and received legislation repealing the six month semi-annual adjustment. The 1981 U.S. four year farm bill further reduced price supports for the dairy farmer, guaranteeing

that dairy farmers would receive no increase in income for at least four years. In addition, the congress in its budget resolution put on the 50 cent milk tax, and in the budget act of July, 1981, reduced the federal milk subsidy in the federal school lunch program which has resulted in the massive reduction of milk consumption in our nation's schools. I know of no segment of any industry in this country that has been hit as hard by our government as the dairy farmers. These cuts in dairy income have forced many a young farmer with high leverage and loan commitments into bankruptcy and out of business. It makes no sense at all for our government to have a farm policy that is punitive for a 50-cow or 75-cow operation in Minnesota or Wisconsin, but a policy whose effects can more readily be absorbed by a 5,000 or 10,000 cow operation in California, Arizona or Idaho.

Mr. Chairman and members of the subcommittee, it makes no sense at all for the federal government to abandon the individual who is producing food or fibar for our great nation and for needs of the goverment itself.

It makes no sense at all for the government to treat family farmers as pawns in their game of working out their supply-and-demand economic theories. To do so will destroy these small farmers and allow giant corporations to gain control of agriculture.

Indeed, the case can and should be made that family farms should be singled out and exempted from any governmant cutbacks -- for it is clearly in our national interest that we have prosperous, productive, and healthy family-based, family-farm-dominated agricultural system. Even if they are not always profitable in pure material or financial or in some other economic sense, these family businesses are a social, economic, and cultural good.

Thank you for your attention to these important matters and I want to thank you again, Mr. Chairman and Congressman Stangeland, for your coming here today. It is greatly appreciated by me and the farmers of our district and state.

Statement of Mr. Dale Lewandowski
Before the
Subcommittee on Livestock, Dairy and Poultry
of the
Committee on Agriculture
United States House of Representatives
October 3, 1987

I am Dale Lewandowski, a dairy farmer from Foley, Minnesota. I am a member of the North Central Region Board of Directors of Associated Milk Producers, Inc. and serve on the National Beef Promotion Board and the Board of Directors of the American Dairy Association of Minnesota. I appreciate this opportunity to comment on a number of the policy issues facing dairy farmers.

The 1985 farm bill directed implementation of the Dairy Termination Program as a means of quickly reducing milk production, cutting Commodity Credit Corporation dairy product purchases the price support program and lowering government costs. In addition, the legislation directed price support reductions that could total as much as $2.00 per hundredweight through January 1, 1990.

The support price has already been reduced 50 cents this year although most of that reduction has been offset by the removal of the 40 cent assessment that paid a substantial portion of the cost of the Dairy Termination Program.

Right now, the major question with respect to dairy policy is whether or not the January 1 price support reduction will be made. Most estimates of production and consumption for 1988 indicate that CCC purchases will be very close to the five billion pound trigger point spelled out in the farm bill. There are factors

other than the level of CCC purchases that should be taken into consideration in making this decision.

The voting delegates at AMPI's 1987 annual meeting endorsed a resolution calling for a temporary ten cent per hundredweight increase in the producer assessment for national dairy product advertising and promotion in lieu of a price support reduction January 1, 1988.

This resolution saw the opportunity to accomplish several things. First, the $600 to $700 million reduction in farm income resulting from a price support cut could be avoided. Second, commercial sales of milk and dairy products could be increased by expanding producer funded promotion that has proven so successful. Finally, it was felt that this approach would be more effective in reducing government costs.

I understand that cost estimates developed by the Congressional Budget Office have now confirmed these expectations.

In recent years the farm price of milk has declined quite sharply. In August 1983, Minnesota farmers received an average of $12.60 per hundredweight for their milk. In August of this year, USDA says that price was $11.60, exactly $1.00 lower. As prices have declined, we have been faced with two unsatisfactory choices. We could get out of dairying or expand production to maintain the cash flow needed to stay in business. The result has been pretty evident. The only production declines since 1983 were when the Milk Diversion Program or the Termination Program were in effect.

When price cutting was the basic tool being used to reduce production, farmers responded by expanding output.

Those advocating further price reductions argue that one of the benefits of such a policy is that consumer prices decline and consumption increases. Consumption has increased since 1983, but I question that this has been the result of reduced prices. Hoard's Dairyman, a national dairy publication, recently compared farm prices for milk with consumer prices for dairy products. It was determined that farm milk prices had declined by as much as 13 percent between 1981 and mid-1986 while the retail price index for dairy products had risen 7.6 percent.

Right now, there are a lot of dairy farmers, particularly young farmers, on the line. Another price support cut could push them out of business. In the process, this could be the reduction that moves us from a fairly reasonable balance between supply and demand achieved by the Dairy Termination Program to one of short markets. That is a real risk that few, if any, have taken seriously in recent years.

USDA indicates that CCC stocks of dairy products are about eliminated. There is, in fact, talk about cutting back food distribution programs, assistance to school lunch programs and overseas food aid because the government stocks are not available. If cut too low, stocks are not available for resale to the trade to prevent rapidly rising consumer prices.

It is my understanding that budget savings of up to $150 million in 1988 would result by expanding dairy product promotion rather than reducing the price support level. A major concern in dairy policy has been the need to cut government costs. This being the case it would seem that an option that would result in lower costs while maintaining farm income and expanding commercial sales would find ready support.

Over the past year and a half substantial work has been done to bring about a consolidation of national dairy research and promotion entities. The purpose of such efforts has been to achieve the most efficient use of producer money being provided for this work. I feel very strongly that such a consolidation is needed in order to avoid duplication.

It appears that those two national promotions organizations are drifting apart rather than coming together as contemplated by the legislation in the '85 farm bill.

Although the success of the 15¢ checkoff over the past couple of years is obvious, Minnesota dairy farmers feel that even more could be done with this needed change in our current structure. We would ask that you monitor the progress of the other amendment submitted by the NMPF to USDA. If we are not successful in merging the two organizations through this administrative process, then we would ask you to help in establishing this much needed reform through the legislation process.

The dairy industry of the 7th Congressional District truly appreciates you taking the time to bring this hearing to us.

Dale Lewandowski
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DAIRY HEARING

Melrose, Minnesota

October 3, 1987

I am Mel Kunstleben, a dairy farmer from Paynesville, Minnesota. My wife and three children own and operate 440 acres and milk 57 Holsteins. I am a member of Associated Milk Producers, Inc. and serve on the North Central Region and the Corporate Board of Directors of that organization.

I appreciate the opportunity to paricipate in this meeting to discuss several issues of importance to me as a dairy farmer. Before addressing these however Congressman Stangeland, I would like to express my appreciation for your support for needed agricultural programs and legislation. Earlier this year it was my pleasure to present you with AMPI's milk can award in recognition of a 100 percent record in support of key dairy programs in the Congress.

The Dairy Termination Program created by the 1985 farm bill has just ended. Over the next few months there will probably be a great deal of analysis of the program. Without going into great detail, there are a number of things that can be said for it. The program did reduce milk production. When it started in April 1986, production was running five percent over year earlier levels. This increase was halted almost immediately. The program reduced government purchases of dairy products under the price support program.

For the 1986-87 Marketing year which just ended October 1, purchases totaled some 5.4 billion pounds milk equivalent. This compares with 12.3 billion pounds a year ago. The program reduced government costs.

The dairy farmers paid about 40 percent of the termination program costs-- about $700 million--through assessments on milk marketings. The reduction in government purchases last year alone reduced government costs by over one billion dollars Substantial savings have been and will be realized by avoiding the high levels of surplus production that were developing when the program started. By any measure the program has been effective.

There have been problems. Beef producers charged that the program reduced beef cattle prices. Prices did fall when the program started up even though substantial safe guards recommended by the National Cattlemens s Association were included in the legislation. These included government purchases of 400 million pounds of red meat.

Looking back at that, we see that cull cattle markets recovered within 30 to 60 days. Fat cattle markets which probably should not have been effected much at all took longer to recover.

As a dairyman, I am also a substantial beef producer. Any reduction in beef prices hurts my income. I think the experience of the buy-out points up the need to avoid the buildup of excessive dairy cattle numbers which creates the potential for large movements to slaughter when herd reduction begins.

I am afraid that some USDA rulings have helped affect the effort and intent of the Termination program. Program participants have agreed to stay out of dairying for five years. However, USDA has said it is all right for these people to finance new entrants into dairying. The Department's own rules on the program for participants from participating in any scheme which would tend to defeat the purpose of the program. Assisting in expansion of milk production surely helps to defeat the programs's purpose. The program has worked. It is not, however, a final answer to the problems we face in dairying. Dairy Termination Program moved the industry very quickly toward the needed supply-demand balance. It was a short term program, however, whose gains will be quickly eroded if further action is not taken.

I know that the 1985 farm bill provided for a series of price support reductions totaling as much as #2.00 per hundred weight by 1990. These have been portrayed as tool to maintain milk production at the lower levels achieved through the Termination program. I am afraid this is not the case. Faced with low feed prices and the need to maintain cash flow, many farmers are going to do the same thing I am in response to these cuts. In my operation, I have to expand more to meet my financial needs. More cuts means more expansion. In my neighborhood, I know of three operations expanding. And there will be more expanding with future cuts.

We have an opportunity now to establish a dairy policy that will give producers the tools needed to produce for the needs of the market at a reasonable return to themselves and with fair prices for the comsumer. In AMPI, we have long advocated an effective standby supply management program as part of dairy policy. This could be used when excessive production was in prospect to prevent a buildup of surpluses which have reached ten and twelve percent of total production. A two-tier price program such as we have discussed would allow the farmers to receive the full market price for milk needed to meet commercial demand. The price for excess milk would be reduced substantially to help meet the cost of the government buying the surplus product and to discourage production. A farmer could avoid any price reduction simply by holding production to the level demanded by the market.

As we look at the dairy industry today we see major producing areas expanding production. Last month California was 8.5 percent over a year ago, Wisconsin was up 3.4 percent, Texas increased 3.2 percent. Driven by cheap feed, by the need to maintain their operations, or whatever purpose, farmers are increasing production.

We can build on the success of the Termination program. More and more of the farmers I talked with feel this is necessary. Unless this in done, we face further serious problems with production increaces and high government costs or the prospect of bankrupting thousands of dairy farmers through succesive price reductions. This not only affects dairy farmers, but the countless number of people in rural America who provide services to farmers. This will reduce production eventually. But when that happens there will be a far greater problem as the abundant supplies of low cost dairy products vanish and consumer prices rise rapidly.

A final point, I would like to mention deals with the treatment of high moisture corn under the Feed Grain Program. Last year, many dairy farmers in Minnesota, Wisconsin and across the midwest were able to harvest their corn,grind and roll it directly into the silo, obtain a CCC loan on the grain and then redeem the loan using PIK certificates in what is called the "Pick and Roll". We are told that program regulations were the same this year, however, several new requirements effectively bar its use. I am told I must have the corn weighed across a certified scale or the volume otherwise verified before I can get the CCC loan. Once that is done, I must take out the loan and redeem it with PIK certificate before grinding or rolling the corn into the silo. All this requires additional time, adds cost and really achieves nothing except to deny the corn grower who participate in the Feed Grain Program the same program benefits available to the producers putting his grain in dry storage.

It is a question of equity. I have idled the same acreage as my neighbor who is a grain farmer. But I am told I must meet virtually impossible requirements to be treated the same.

Thank you.

[illegible]
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Statement of
Murl Nord
Dairy Farmer and Board Member
Land O'Lakes, Inc.

Presented to:

Subcommittee on Livestock, Dairy, and Poultry
U.S. House Committee on Agriculture
Melrose, Minnesota
October 3, 1987

My name is Murl Nord. My brother and I operate a dairy farm near Blackduck, Minnesota. I also serve on the Board of Directors of Land O'Lakes, Inc., a regional dairy cooperative marketing about 25% of the milk produced in Minnesota.

I appreciate the opportunity to comment on the effectiveness of the Dairy Termination Program and other dairy matters. In particular, I want to comment on the following subjects:

1. The merit of the Dairy Termination Program.

2. Regional distortions in the incentives to produce milk.

3. Suggestions for avoiding the potential 50¢ cut in the support price on January 1, 1988.

Dairy Termination Program

In my view, the Dairy Termination Program was a great success. It removed 12 billion pounds of milk production capacity from the dairy industry with a minimum amount of cost and industry disruption. Participants in the program benefited by receiving the program payment for exiting the industry. Many of these producers would have exited the industry without the program and could have suffered great financial stress. The program payment provided many with the means to transfer their resources into other agricultural enterprises or to enter a non-farm occupation.

The government benefited because only the lowest bids were accepted to achieve the 12 billion pound buyout goal. Also, approximately one-third of the cost of the program was offset by producer assessments. There is a longer run benefit in that government purchases of surplus dairy products will be reduced significantly for several years to come.

Non-participants in the Dairy Termination Program benefited from an improved market for milk during the last half of both 1986 and 1987. For example, the Minnesota-Wisconsin price was 12¢ below the equivalent support price for 3.5% milk during November 1985. During November 1986, the Minnesota-Wisconsin price was 60¢ above the equivalent support price, and this November the Minnesota-Wisconsin price is expected to be about 70¢ above supports at 3.5% butterfat. This great improvement in pay prices resulted from the reduced supply created by the Dairy Termination Program. It also represents substantial recovery by producers of the assessments paid by them.

Other favorable features of the program are that it was voluntary, and that it removed production capacity for an extended period of time. It is unlikely that much of the idled capacity will return to production after the five year contract period.

The program has been criticized for not solving all the industry's production problems. Non-participants continue to expand production and may eventually offset the impact of the program. This is not an unusual or unexpected development. Survivors in the dairy industry have expanded both size and productivity on a continuous trend since the depression. What the Dairy Termination Program did in this environment is reduce the base level of capacity from which future production adjustments will be made. Whether milk production increases in the future depends on the economic incentives faced by remaining milk producers.

Regional Distortions

The regional pattern of milk production has been shifting gradually over time. Among the top ten milk producing states, Wisconsin, California, Pennsylvania, Texas, and Washington have increased their share of national milk production, while New York, Minnesota, Michigan, Ohio, and Iowa have lost market share. It is possible that in 1988 Pennsylvania will displace Minnesota as the fourth largest milk producing state.

Much of this change has resulted from changes in the efficiency of milk production in different regions, as well as changes in the attractiveness of alternative enterprises and occupations. However, I believe that some of the change in milk production patterns results from more favorable Class I differentials in the South and East than in the Upper Midwest. The increase in Class I differentials mandated in the 1985 Farm Bill greatly increased the problem.

For example, the Class I price was increased 8¢ in the Upper Midwest market. About 15% of the Grade A milk in this area is used in Class I products, so the net affect on the blend price is only about one cent. In contrast, the Class I differential was increased by 98¢ in Georgia. Georgia has an 81% Class I utilization, so the improvement in the blend price could amount to almost 80¢. The expected blend price improvement in Texas amounts to more than 60¢.

These differences in impact result in long run encouragement for increased milk production in the South relative to the Upper Midwest. The unfortunate aspect of this situation is that increased milk production in the South ends up in manufactured dairy products, further depressing manufacturing milk values to the detriment of all dairy farmers.

We do not need high Class I differentials in the South to assure adequate supplies of milk for Class I use. Impediments to the free flow of milk between Federal milk order areas could be relaxed. Southern milk markets could provide year-round pooling to northern suppliers in exchange for shipping performance during the tight supply period in the fall, or part of the proceeds from Class I sales in the South could be used to contract for supplemental supplies in the fall. With any of these changes, Class I prices to handlers could be reduced in the South.

The feed grain program is another consequence of the Farm Bill that leads to distortion in regional milk production. The very low feed grain prices that result from current programs tend to favor dairymen in feed deficit areas relative to dairymen who produce most of their own feed, as is the case in the Midwest. Dairymen who are feed purchasers in the South, East, and West benefit from low feed prices. Dairymen in the Midwest who are feed producers experience about the same costs of production regardless of the price of feed.

Potential 50¢ Drop in Supports

The 1985 Farm Bill requires a 50¢ drop in the support price for milk on January 1, 1988 if the Secretary of Agriculture expects CCC purchases of dairy products to exceed 5.0 billion pounds of milk equivalent during the calendar year. We estimate that it will be a close call as to whether CCC purchases will exceed 5.0 billion pounds of milk equivalent in 1988.

We oppose the potential 50¢ drop in the support price on January 1, 1988 because there are ample mechanisms for bringing government purchases below 5 billion pounds. Among these are demand enhancing measures as well as supply reducing measures.

On the demand side, the Dairy Export Incentive Program (DEIP) could be strengthened and the amount of producer money spent for dairy product promotion could be increased. The biggest reform needed in the DEIP is to pay the bonus in the form of generic certificates instead of CCC-owned dairy products. Such a change would give exporters greater flexibility in meeting the needs of buyers.

The expansion of dairy promotion under the Dairy Promotion and Research Program adopted in 1983 has resulted in dramatic increases in dairy product sales. Commercial disappearance of all dairy products is up 3.5% this year compared to 1986, and up 13.5% from the start of the program in 1983. A further increase in promotion efforts could result in even more sales of dairy products. If we can achieve an additional 1% growth in sales in 1988 with an additional 10¢ assessment from producers, CCC purchases would surely fall below five billion. We support an increased assessment for dairy promotion because it capitalizes on an already successful program, and is a cheap trade-off for a 50¢ cut in supports. However, the increase in promotion assessments must come with an assurance from Congress that the 50¢ cut will not take place.

Efforts can be made on the supply side to reduce government purchases below five billion pounds. Congress has already considered casein import quotas and a casein import offset against CCC purchases, and rejected both. That is unfortunate because casein imports are out of control, and they do replace domestic dairy ingredients in many foods and feeds and cause increased CCC purchases of domestically produced dairy products.

I have already mentioned that Class I price differentials under Federal milk orders could be reduced to discourage increased milk production in the high production cost regions of the United States.

Probably the best mechanism for reducing milk supplies would be another round of bidding under the Dairy Termination Program. The Secretary of Agriculture has authority to re-implement the program for 1988, but he appears to be reluctant. Congress could and should compel him to do so. At the most, only one billion pounds reduction in milk production is needed to get below five billion pounds of purchases. At an average bid of $15.00, only $150 million would be needed to achieve that goal. That expenditure could save dairy farmers about $750 million. In my view, 500% is a good return on investment.

I want to summarize the points of my testimony.

1. The Dairy Termination Program was effective and produced benefits for participants, non-participants, and taxpayers.

2. Regional milk production patterns are changing, partly as a result of unwise incentives provided in the 1985 Farm Bill. We recommend that Class I differentials under Federal milk orders be reduced to their 1985 levels.

3. Small increases in demand or small decreases in milk supply will be enough to avoid the potential cut in the support price on January 1, 1988. We recommend a strengthening of the Dairy Export Incentive Program and an increase in the assessment for dairy promotion. Also, another round of bidding under the Dairy Termination Program could assure that CCC purchases fall below five billion pounds in 1988.

Thank you for the opportunity to present my views on these dairy matters.

STATEMENT OF JAMES LEFEBVRE

BOARD MEMBER OF

MID-AMERICA DAIRYMEN, INC

October 3, 1987

As you know, U.S. milk production has been steadily increasing for several years with the exception of 1984 when production was reduced by the Milk Diversion Program. In 1985, production rapidly rebounded following the end of the diversion program. Milk production for 1986 was about 144 billion pounds or 1 billion pounds more than 1985 production. Although almost two-thirds of the 1 1/2 million dairy cattle contracted for slaughter or export under the Whole Herd Buyout Program were sold by the end of 1986, high production early in the year and the phase in of slaughter throughout the year still left 1986 production above 1985. While 1987 production is likely to be below 1986 production, some Whole Herd Buyout Program cattle still produced milk during 1987 until the last one was slaughtered or exported. Furthermore, expansion of milk production by non-program participants will replace some of the production removed by the program. By 1988, the Whole Herd Buyout Program will have ended and the milk feed relationship favorable to producing milk could increase production to around 146 billion pounds.

The trend for milk prices has been steadily downward throughout the period of 1983 through 1986 and will probably continue. Without taking

assessment into account, all milk prices averaged $12.50 per hundredweight for calendar year 1986 and will probably be about the same in 1987. Beyond that, prices could likely drop some more by 1988. While this steadily decreasing scenario for milk prices is disheartening, the real importance of milk prices for dairy farmers is in their relationship to the cost of producing milk which will actually be relatively favorable at least in the near term.

There appears to be a considerable amount of support within the administration and in some segments of the industry to utilize price as the sole supply management tool in the dairy industry. Proponents of this position contend that consumers will benefit by lower prices and in the long run producers will benefit by increased consumption. Since the price supply management people contend that reducing the support price would benefit consumers, let's look back in history and see what relationship changes in the support price have had on changes in consumer prices.

The price support level has been reduced on nine different occasions since the program was adopted in 1949. A review of those price support reductions reveals that retail prices immediately following a reduction in support price level have either not decreased or have decreased at a rate substantially less than the rate of decrease in the support price. During the period of 1981 to 1986, the support price dropped 14 percent. The retail price for a half gallon of milk was unchanged, the retail price for skim milk increased 4.1 percent and the retail price for lowfat milk increased 1.4 percent. At the same time, the retail prices of butter and cheese increased about 7 percent each. Where is that benefit to consumers from reducing the dairy price support level? It appears not to exist. There appears to be very little if any positive relationship between price support reductions and retail dairy price levels.

A review of history brings us to the conclusion that using dairy price support decreases to bring supply and demand into balance will not benefit consumers through lower retail prices. That also kills the "lower price, higher consumption, farmer benefit" theory.

Are price support reductions the solution to balancing supply with demand?

To answer that question, let's look once again at history. Between 1981 and 1986, milk production increased 9 percent despite a 14 percent reduction in dairy support prices. Apparently the milk production industry is more complex than a straight line supply curve would indicate. The 14 percent reduction in dairy price supports has been very painful for dairy farmers, and those reductions in support prices have not effectively reduced milk production.

Why has milk production continued to increase despite price reductions and the promise of further price reductions? To answer that question, let's turn to economics. There are many reasons that would answer our question but the answer is basically an economic issue. We must remember that economics is broken down into two types - industry level and farm level economics. Industry level economics covers the total industry and is the type that policy makers look at in developing economic policy for the dairy industry. Farm level economics is what the individual dairy farmer considers in making his production decision. For that reason, it's farm level economics that determine whether the dairy farmer makes a profit, stays in business, keeps his farm and feeds his family. It is a farm level economic decision that causes a dairy farmer, when faced with a price decrease, to increase milk production in the short run to maintain the same level of total income. Said in another way, if the per unit income level is decreased, then more units of output must be produced to maintain the same total dollar income level.

There are many dairy farmers here today, but let me give you an example. Let's assume we have a dairy farmer milking 65 cows with production per cow of 13,000 pounds per year and total production of 845,000 pounds, at a milk price of $13.00 per hundredweight. Based on U.S.D.A. cost of production studies, his cash expense to produce that milk was about $10.50 per hundredweight, resulting in a net income figure of $2.50 per hundredweight or $21,000 for the year. If the price were reduced $.50 per hundredweight, his net return would drop to $2.00 per hundredweight or about $17,000 per year. In order to maintain his income level at $21,000 per year, he will be required to increase his production of milk to 1,056,000 pounds. In order for this dairy farmer to maintain his standard of living, he will be forced to increase his production by 25 percent above his previous level. In order to remain in business, dairy farmers are forced to increase production in the face of declining milk prices.

As long as there is any margin at all in producing milk, there is a viable reaction of the dairy farmer to a decrease in price. Yet, that is exactly what current policy calls for, support price reductions if surpluses are projected to be over 5 billion pounds.

It should be obvious that in the short run, price decreases will result in an increase in milk production. It should also be obvious that in order for a supply management program to be effective, there must be an economic incentive for the farmer individually to reduce his production level. A reduction in price fails to meet that objective.

Dairy support price reductions do not affect all dairy farmers equally. A review of recent price support reductions indicates the heaviest burden falls upon the smaller producers which are more commonly referred to as family farms. Since 1981, the dairy support price has dropped $1.89 per hundredweight or 14 percent. In 1981, there were 252,000 family size farms, or farms with less than 50 head of cows. In

1985, this figure had dropped over 20 percent to 197,000. Forcing a large number of dairy farmers out of business can have catastrophic implications on rural America. Dairy farmers not only support their families, but support many other organizations, business and social units in the rural community.

In order for a supply management program to be successful, it must provide the appropriate economic incentive for dairy farmers to respond to the desired objective in milk production. Whether that objective is to increase production, stabilize production or decrease production.

We have seen that price support cuts have not been working. Let's not let dairy farmers and rural communities suffer further. The steps that have already been taken to reduce production and the ongoing efforts toward improving demand are heading us in the right direction. We should let those programs work and stop looking to price support reductions to solve the current problems.

After the price support cuts and assessments we have already had, and the potential for another cut in January, now we learn that the Gramm-Rudman law may force the dairy industry to take additional cuts. Dairy farmers will be hard hit if any kind of additional price support cut or assessment is enacted. It is unthinkable that we could be hit with both a Gramm-Rudman cut and a support price cut on January 1, as a result of the Food Security Act of 1985. To be hit with both would be devastating!

If Gramm-Rudman legislation does require that additional stress be inflicted on dairy farmers' income, and I hope this doesn't happen, dairy farmers would rather see an assessment on milk marketed than a drop in the support price. In a Mid-America Dairymen, Inc. member survey conducted this summer, 66.5% of the dairy farmers surveyed said they would prefer an assessment rather than a price support cut, if U.S. budget reductions force something of that nature.

I hope our government sees that the dairy industry doesn't need anymore price support cuts or assessments of any kind.

STATEMENT OF
ARNOLD NIETFELD
BOARD MEMBER
FIRST DISTRICT ASSOCIATION OF MINNESOTA
AND
A MEMBER OF THE
NATIONAL MILK PRODUCERS FEDERATION
PRESENTED TO

SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
U.S. HOUSE COMMITTEE ON AGRICULTURE
MELROSE, MINNESOTA
OCTOBER 3, 1987

Mr. Chairman and Members of the subcommittee:

I am Arnold Nietfeld, a dairy farmer and board member of the First District Association of Minnesota. Our organization is a member of the National Milk Producers Federation.

I appreciate this opportunity to appear before the subcommittee and I would like to commend you for your efforts in bringing the subcommittee to Minnesota so that producers here can present their views on current farm programs to the Congress. We have been pleased with your responsiveness to our concerns to date and we look forward to working with you on issues before the U. S. House of Representatives in the future.

My intention here today is to focus on how the 1985 farm bill has affected the dairy industry nationally and what the outlook is for the near term.

As the national commodity organization representing America's dairy farmers, we have been involved in every phase of the Dairy Termination Program: from its formulation before this subcommittee in 1985, to its initial implementation by the U.S. Department of Agriculture in 1986, through the monitoring of the program's impact on the dairy industry and other agricultural commodities from its beginning nearly 18 months ago to the final days of the program today.

While I don't want to dwell on past history, it is gratifying to be able to commend the subcommittee for its role in establishing what we believe are the positive dairy provisions of the Food Security Act of 1985. Those of you who served in the

99th Congress will recall that we were initially concerned that a Dairy Termination Program, or whole herd buyout as it was referred to at the time, by and of itself would not prove adequate to correct the supply/demand imbalance in the dairy industry; an imbalance which we sought to resolve.

We had advocated a more comprehensive and permanent approach to achieving and maintaining a balance between production and consumption to sharply curtail government dairy program outlays while protecting dairy farm income. The compromise agreement which ultimately emerged from the House-Senate farm bill conference committee contained price cuts which we found objectionable, not because they would reduce the milk support price but because of their arbitrary and subjective nature. I will address that subject later in my remarks.

The conference agreement contained an 18 month program designed to provide payments, partially funded by dairy farmers, to those milk producers who would contractually agree to stop producing milk and remain out of dairying for a period of three, four or five years, at the discretion of the Secretary of Agriculture. Additionally, the program contained a red meat purchase program to minimize the impact of the additional dairy beef on the nation's red meat markets.

We are now in the last days of this 18 month program, under which nearly 14,000 dairy farmers have opted to quit dairying for at least the five year period established by USDA. We expect very few of those producers to return to milk production at the end of the contract period.

The results of this program are heartening, and much of the credit for that fact goes to this panel. A great deal of work was done by members of both the House and Senate Agriculture Committees in formulating the numerous provision of the 1985 farm bill. After a long, and many times contentious, debate the commodity provisions for the next several years were established by the Congress. As we look at the nation's agricultural situation today, we are pleased with the tremendous accomplishments evident in the dairy program. No commodity program in the entire farm bill can show the progress in terms of both surplus reduction and government cost savings that we have seen in the dairy program. It is an enviable record and one which deserves greater attention, both as a tribute to Congress and to the hard work and sacrifice of the nation's dairy farmers in making the program a success.

Let me briefly review the results to date in order to give the subcommittee a more complete picture of the current dairy situation. Since the inception of the DTP milk production has dropped below year earlier levels every month. During the first six months of this fiscal year, 1987, milk production is four percent below the same period of fiscal year 1986. Milk cow numbers are six percent below a year earlier and are at the lowest levels on record.

With milk production declining and the dairy farmer funded milk promotion efforts helping to boost consumption, dairy program purchases by the CCC, on a milk equivalent basis, have dropped dramatically. After reaching 13.2 billion pounds--or about nine percent of total production--in calendar year 1985, government purchases dropped to 10.6 billion pounds in calendar year 1986, during the initial stages of the DTP. That reflects a 19 percent drop in purchases in one year.

Now that the DTP has nearly run its course, the results are even more dramatic. During the first ten months of FY 1987, USDA purchased just 4.86 billion pounds, more than a fifty percent reduction from the 12.06 billion pounds purchased during the same period in 1986.

On an individual product basis, through the first half of FY87 butter purchases are down 56 percent, nonfat dry milk purchases are down 48 percent and cheese purchases are down 59 percent from the same period in FY86.

These dramatic reductions in dairy program purchases translate into substantial reductions in the cost of the dairy price support program. Fiscal year 1986 dairy program costs totaled $2.3 billion. For fiscal year 1987, total program costs will be about $1.1 billion, making the dairy program one of the few, and perhaps the only, commodity program to fall within its budget baseline. We expect the program savings to continue into next fiscal year as well, with program costs projected below the FY87 level.

To gain a greater appreciation for the success of this program it is necessary to look at the alternative program which was advocated by the Administration and others, including, unfortunately, some agricultural groups. Without the DTP and with the price cuts which were proposed as the major alternative to this program, milk production today would be higher, government dairy stocks would be higher and program costs today would be higher. In 1987 alone, we project that CCC purchases in the absence of the DTP would total 14.3 billion pounds; with the DTP we believe they will be under 5.0 billion pounds. Even accounting for the lower support price which would have been in

effect under the alternative program, we project government costs with the DTP will be more than $1 billion lower than they would have been had Congress adopted the price cut approach sought by some. A more complete review of the comparison between the DTP approach and the price cut approach is contained in Attachment #1.

Red Meat Purchases

Beyond the tremendous gains in the dairy situation that have been made with the assistance of the DTP, the program has additionally provided substantial aid to the nation's cattle producers, largely through the foresight of the subcommittee in providing for the purchase of 400 million pounds of red meat by the government to offset additional meat coming onto the market as a result of the DTP.

Unfortunately the DTP became a scapegoat for some groups to attack when cattle prices dropped somewhat at the beginning of the program. These attacks were made despite the fact that cattle prices were simply following their seasonal decline (Attachment #2) and were in a fundamentally weak position at the time the DTP went into effect. Once it became clear that the negative psychological reaction to the increased cow culling from the DTP was unwarranted, market prices quickly stabilized and have in fact dramatically increased during the months of the DTP. Steer and heifer prices in May, 1987 were at their highest level since 1980. I only wish that those who were so quick to attack the DTP as responsible for initial market price drops would acknowledge the program's positive impact on meat prices.

To date, USDA has purchased 423 million pounds of red meat under the program. Additionally, about 70,000 head of dairy cattle, representing the equivalent of about 25 million pounds of meat, have been exported under the DTP. It is important to keep in mind that the total dairy cows contracted under the DTP represent an estimated 519.4 million pounds of red meat (Attachment #3). Thus, the red meat purchase subsidy program effectively removes more than three-fourths of the total meat of the DTP animals and has in fact provided a substantial boost to red meat market prices.

Dairy Situation Today

While we are pleased with the positive results of the Dairy Termination Program, there is nonetheless great concern among many dairy farmers over the possibility of further erosion in milk support prices as a result of the CCC trigger levels established in the 1985 farm bill. Despite the excellent results to date, we are concerned that there may be a reduction

in the support price of $.50 per hundredweight on January 1, 1988, which would lower the support price to $10.60, if USDA projects CCC purchases in 1988 in excess of five billion pounds milk equivalent. Our projections indicate that surplus removals will be less than five billion pounds for 1988, but unfortunately there is no objective mechanism to deal with the trigger. If USDA reduces the support price and removals turn out to be less than five billion pounds for the calendar year, the department will simply claim that removals were lower because of the price cut.

As I noted earlier, we question the imposition of an arbitrary and static target of five billion pounds milk equivalent for dairy program purchases upon a dynamic industry. The five billion pound target for Commodity Credit Corporation removals was initially established in the early 1980s, when annual milk production was about 135 billion pounds and consumption was about 121 billion pounds. The 12.8 billion pounds of milk purchased by USDA under the price support program in 1981 equaled just under ten percent of total U.S. milk production.

For calendar year 1987, milk production is likely to total 142 billion pounds and we project commercial use will total about 139 billion pounds. USDA is likely to purchase about 4.9 billion pounds of milk this year, or just under five billion pounds. The key point is that in a growing industry, the five billion pound milk equivalent target represents a smaller amount of total production. Thus, in 1987, USDA is expected to purchase about 3.6 percent of the nation's total milk production to support farm milk prices.

That is a dramatic reduction in both real and percentage terms, reducing CCC removals to their lowest levels in nearly a decade. But still, dairy farmers face the very serious prospect of a reduction in milk prices, even though it is clear that USDA will not have sufficient stocks of dairy products in CCC inventories to meet its various Congressional mandates for domestic and foreign dairy product obligations. Recently, USDA rejected an opportunity to sell dairy stocks to India, claiming that no product was available. At present, many state food distribution coordinators are voicing concern that they will not receive enough dairy products from USDA during fiscal year 1988 to meet their local needs under the Temporary Emergency Food Assistance Program (TEFAP). Frankly, it is difficult to comprehend the possibility of a further reduction in farm milk prices at the same time USDA is unable to provide dairy products for its programs.

We do not believe further price cuts are needed at the present time. Because of our concern, we are exploring possible ways to provide even greater assurance that CCC removals will be below five billion pounds in 1988, thereby eliminating the possibility of a price cut on January 1, 1988.

One proposal which our members are examining at present is the possibility of increasing national milk promotion expenditures to commercially market even more milk and get us under the five billion pound trigger and eliminate the authority for the potential price cut. We will be communicating our views to the subcommittee on this subject in the coming days as our members continue their deliberations on the matter.

DTP Program Compliance Audit

We are generally pleased with the findings of USDA's Office of Inspector General in its audit of compliance with the Dairy Termination Program regulations. The extensive field audit and review by OIG found that USDA's Agricultural Stabilization and Conservation Service generally developed and implemented effective procedures and/or controls over the bid and contract acceptance process, and complied with the provisions of the Food Security Act of 1985. Additionally, OIG pointed out, in most areas where program control problems were pointed out, ASCS took prompt and positive actions to issue additional procedures addressing the conditions noted.

One of the reasons the program has worked so well is because of the dogged efforts of the nation's dairy farmers to make sure it works. Dairy farmers are paying approximately $700 million of the program's cost in the form of assessments on all milk marketed and they are keenly interested in seeing the program succeed in reducing milk production and government program costs. We have been contacted on several occasions by our members expressing concern about possible program violations in their area. In virtually every case we have contacted ASCS personnel in the Washington office and they have been responsive to our contacts.

In summary, Mr. Chairman and Members of the subcommittee, we believe the Dairy Termination Program has worked well to date in reducing surplus milk production and providing some financial assistance to those dairy farmers who contracted to eliminate their production under the program.

We are pleased that, to date, the dairy program has worked better than perhaps any other commodity program in the 1985 farm bill. The dramatic budgetary savings we have achieved in a very short period have contributed greatly to reducing the deficit, especially at a time of rising farm program costs in other commodities.

But we do harbor a great deal of trepidation over the possibility of what we consider unwarranted price support reductions at a time when milk production and consumption are in near balance and the federal government is expected to be short of dairy products for its various program uses. We hope we can work with this subcommittee in the coming days to address these issues in a manner of fairness and equity to the nation's dairy farmers.

Thank you for this opportunity to present my views here today. I would be happy to respond to any questions.

(Attachments follow:)

Attachment #1

EFFECT OF THE DAIRY TERMINATION PROGRAM ON MILK PRODUCTION, PRICES, AND CCC NET REMOVALS 1986-1988

Calendar Year	1985	1986	1987	1988	1986	1987	1988
		WITH DTP			WITHOUT DTP		
	-BILLION		POUNDS---		BILLION	POUNDS-	
Support Price (FB85):	$11.98	$11.60	$11.29	$11.10	$11.10	$10.60	$10.10
Milk Production [1]	143.7	144.1	141.8	144.7	147.8	152.2	155.2
- Farm Use	2.6	2.3	2.6	2.6	2.6	2.6	2.6
Marketings	141.1	141.8	139.2	141.8	145.2	149.6	152.6
+ Beg. Comm. Stocks	4.9	4.6	4.2	4.3	4.5	4.5	4.6
+ Imports	2.8	2.7	2.7	2.7	2.7	2.8	2.8
Total Milk Supply	148.8	149.1	146.0	148.8	152.4	156.9	160.0
Commercial Use [2]	131.0	134.3	136.9	139.7	135.0	138.3	141.8
Ending Comm. Stocks	4.6	4.2	4.3	4.4	4.5	4.6	4.6
Total Utilization	135.6	138.5	141.2	144.1	139.5	142.9	146.4
CCC Net Removals	13.2	10.6	4.9	4.7	12.9	14.0	13.6
Difference in Removals From DTP Program:	--	--	--	--	2.6	9.0	8.5
CCC Net Dairy Outlays [3] (Million Dollars)	$2,140	$2,050	$910	$800	$1,860	$1,940	$1,830
Difference in Cost From DTP Program:	--	--	--	--	($190)	$1,030	$1,030
M-W Manufacturing Price	$11.80	$11.58	$11.40	$11.15	$10.90	$10.40	$9.90
All Milk Price ($/cwt):	$12.75	$12.48	$12.30	$12.05	$11.80	$11.30	$10.80
- Assessment (Average)	$0.13	$0.36	$0.19	$0.00	$0.06	$0.00	$0.00
Net All Milk Price (FB):	$12.62	$12.12	$12.11	$12.05	$11.74	$11.30	$10.80
Difference in Price From DTP Program:	--	--	--	--	($0.38)	($0.81)	($1.25)

[1] Milk production numbers for 1985 and 1986 are actual figures. 1987 projections are calculated from USDA and NMPF Production estimates and account for DTP effects. 1988 projections based on two percent growth rate.

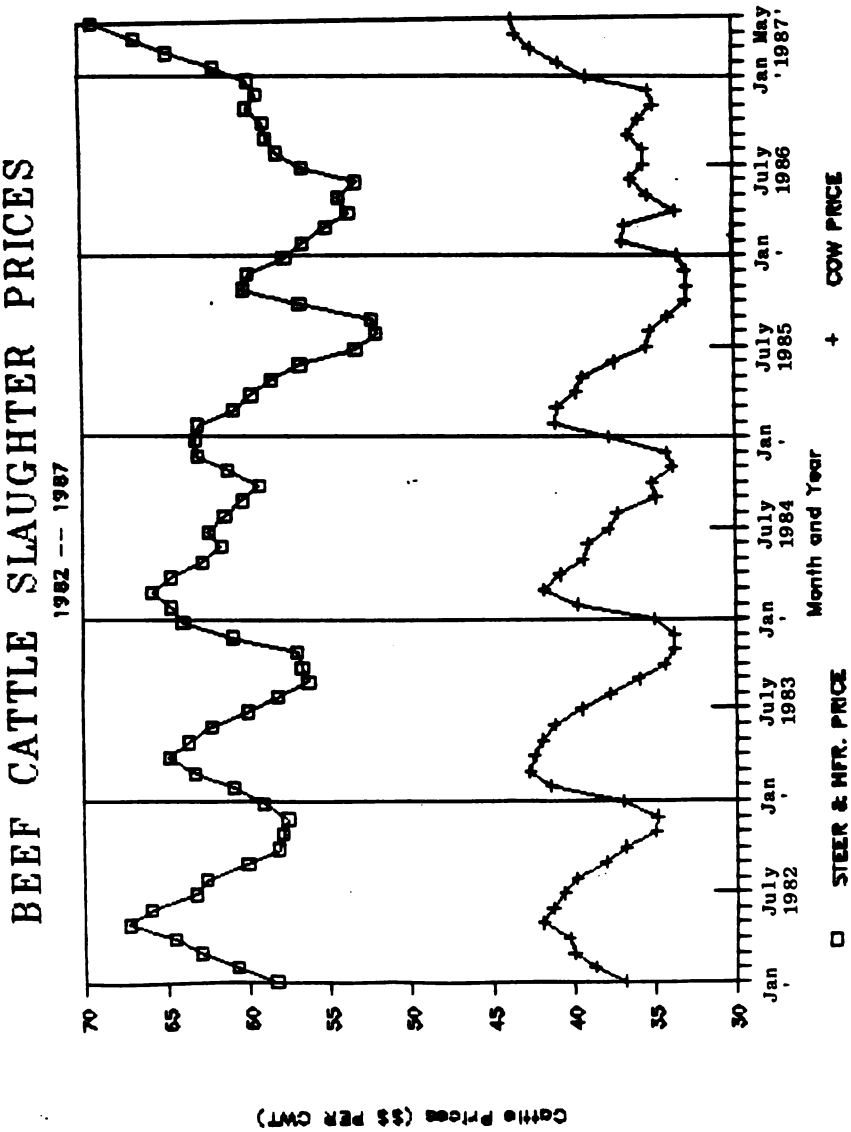
[2] Commercial use projections based on a two percent growth rate under the Dairy Termination Program and a 2.5 percent increase under the plan proposed under the original 1985 Senate version of the farm bill.

[3] Total dairy program costs are estimated using the applicable support levels for the periods indicated. Adjustments are made for applicable dairy assessments, as well as applicable storage, handling, and other related costs. Costs do not include Red Meat Purchase Program costs for 1986 and 1987.

Sources: ASCS and ERS, USDA.

National Milk Producers Federation 9/01/87

Attachment #2



ESOTA STATE CATTLEMENS ASSOCIATION

involved in a lawsuit with USDA over implementation of the Dairy Herd Termination Program. This was not a fight with the dairy industry, but a disagreement with USDA over the handling of the program. According to the bill, the dairy herds were to be dispersed in an orderly fashion. USDA wanted to get rid of as many herds as possible as soon as possible and therefore had a very adverse affect on prices for all cattle. USDA has been much more cooperative in dealing with the problems of the program since then.

The Cattlemen's Association does not support, and will oppose , any attempt to open the 1985 farm bill. The bill may not be perfect, but has more provisions for the livestock industry than previous programs. Government policy has become increasingly reactionary and less the result of long term planning. Our industry does not adapt well to short range programs. It takes several years for the cattle industry to make major changes because of the biological makeup of the animals. We will not support another dairy diversion program. The beef industry does not get any direct government subsidy. We rely on the free market to determine supply and demand for our product. It is our position that this most fairly determines prices and supplies that can be consumed. Government programs to accomplish this seem to have little success because people tend to produce for the program instead of the marketplace.

(Attachment follows:)

AFFILIATED WITH THE NATIONAL CATTLEMENS ASSOCIATION

Economist predicts new dairy program

By JULIE GAY
Agri News Staff Writer

ST. PAUL, Minn. — Dairymen may want to start increasing production now in order to be ready for the supply management program that will inevitably be implemented within five years, according to a University of Minnesota economist.

Hammond

Jerry Hammond, U of M dairy specialist, said simple economic projections show that by 2000 the number of producing units will be more than twice what's needed to meet consumer demand.

"That means the industry will have to implement a supply program or substantially lower prices," Hammond said. "Farmers will chose quotas, not lower prices."

Hammond said farmers can start getting ready for whatever supply management program is implemented by building a production base in line with national expansion trends.

He made his comments for the annual outlook conference here on the U of M campus last week.

In Minnesota, Hammond said, "I can't imagine dairymen will go out of production. Instead, adjustments will be made to larger, multi-family units."

Minnesota's dairy industry has gone through a shakeout because of the ag crisis, but that's been mostly small operations, according to Hammond. In the future, the adjustment will come with inefficient 100-cow operations, "the ones that attract a lot more attention," he said.

Using today's trends in consumer use and dairy production, Hammond projected that by 2000 consumption will total 160 billion pounds, but dairymen will be producing 190 billion pounds by then.

Each farm will have 81 cows in the herd producing 17,200 pounds of milk annually. Hammond's projections don't consider bovine growth hormone's impact on milk production.

By 2000, the nation will have 250,000 herds, but based on projected consumer demand, only 114,000 herds will be needed, he said.

More immediately, Hammond projects a maximum price of $11.80 per hundredweight this fall because of increasing consumer demand coupled with a decline in production.

The production decline, he said, is due to implementation of the final phases of the dairy herd buyout program which ended Aug. 31. He estimated total 1987 U.S. milk production will be 141.2 billion pounds.

Although the call will be close, Hammond believes the U.S. Department of Agriculture will not cut price supports by another 50 cents on Jan. 1. The secretary of agriculture is required to make the cut if projected Commodity Credit Corp. purchases for 1988 exceed 5 billion pounds of milk equivalent.

"The projection will be very close to 5 billion pounds, and even if it's on the high side, election year politics will come into play," Hammond said.

He said next year will be the key in determining the future for the supply management program. Hammond did not predict what type of supply management program should or would be implemented.

In 1988, Hammond said milk production per cow will continue to increase, in part prompted by low feed grain prices that will encourage dairymen to feed at optimum levels.

STATEMENT OF JAMES KINNEY

The purpose of the hearing today is to assess the effectiveness of the Dairy Termination Program and to review other dairy provisions contained in the "Food Security Act of 1985" In that context, therefore, I would like to address several issues.

First, the Dairy Termination Program. The Dairy Termination Program has achieved at least two major goals. It has helped reduce CCC dairy purchases and CCC dairy stocks. It has reduced the cost of the dairy price support program in excess of $1 billion since its inception. Additionally, through the red meat purchase requirement it has helped strengthen the live cattle market price over the last eighteen months. The only area in which the program has not been successful has been in improving the farm price for milk. In fact, during the last eighteen months we have actually seen the price for manufacturing grade milk decrease.

Under the Dairy Termination Program, the Commodity Credit Corporation will purchase approximately 5 billion pounds of milk this fiscal year. If the program had not been in effect, estimates are that CCC would be buying nearly 15 billion pounds of surplus dairy products, doubling to almost $2 billion the cost of the dairy price support program.

In addition to the 400 million pounds of red meat which was required to be purchased under the program, 100,000 head of dairy cattle were exported.

The second issue of concern to us is the prospect of an additional 50 cent per hundredweight price reduction on January 1, 1988. With the 25 cent price reduction that went into effect on October 1, dairy farmers will have seen their price cut by $2.50 per hundredweight since January 30, 1982. That is a 19% cut in price while farm production input costs have continued to escalate over the same period of time. The additional 50 cent price cut is to go into effect IF the USDA PROJECTS that purchases will exceed 5 billion pounds for the year. At this point, analysts within the Department say their forecast of possible purchases is "too close to call." I submit that if the Secretary institutes the additional price cut on January 1, purchases will exceed the 5 billion pound trigger simply because dairy farmers are going to increase their production to meet their fixed operational costs. Not only will dairy farmers suffer financially, costs of the program to taxpayers will increase and the effects of the successful Dairy Termination Program will be negated.

Today in Minnesota the average price received for manufacturing grade milk is $10.90 per cwt. In October, 1982, our producers were receiving $12.90 for that same milk. The parity price for

that milk today is $23.70. In October, 1982, it was $21.00. USDA's Prices Paid Index In October, 1982, was 155; today it is 164. The simple fact of the matter is input prices are UP and farmer's returns are DOWN. Another price reduction in this region of the country, coupled with the prospect of increased production costs, increased interest rates and rising inflation during 1988 will simply mean more Minnesota and Upper Midwest dairy farmers will be out of business.

There are viable alternatives to further price cuts, increased program costs to the government and more dairy farmers going out of business. The first order of agricultural business for the Congress next year should be a complete revision of the dairy provisions of the "Food and Agriculture Act of 1985." The dairy farmers of this country need an effective supply/management program! Every other major dairy-producing country in the world is now in the process of curtailing excessive milk production. At least they are trying to face up to the reality of what we are experiencing today; low farm prices, excessive government costs and unwieldy surpluses.

Right now, under existing law, if the Secretary of Agriculture were truly concerned about the future of America's family dairy farmers, he has the authority to limit production either through initiating another milk diversion program or re-instituting the Dairy Termination Program.

There are other measures which the federal government could implement, within existing law, to help reduce over-production and excessive accumulation of stocks.

The President of the United States should exercise his authority and impose effective quotas on the importation of casein into the United States. In 1986 casein imports into this country reached the 230 million pound mark for the second consecutive year. Imports of casein at that level displace approximately 690 million pounds of domestically produced non-fat dry milk. The milk equivalent of casein imports last year alone exceeded the 5 billion pound surplus removal level that would trigger the 50 cent price cut on January 1, 1988.

Additionally, the use of artificial cheese in food products substantially reduces the domestic use of real cheese products. University of Wisconsin dairy economist Truman Graf estimates that the production of 335 million pounds of imitation cheese in 1985 increased CCC purchases of surplus dairy products by 3.4 billion pounds milk equivalent. Yet, the Department of Agriculture refuses even simple steps, such as the requirement that frozen pizza products prominently state that imitation cheese was used in the production of that food item.

Dairy farmers are willing to do their part in controlling production as evidenced by the two successful programs to limit production that have recently been utilized, the milk diversion

program and the Dairy Termination Program. Additionally, dairy farmers are funding a research and consumer information program to increase consumer awareness of the benefits of real dairy products which in turn has help increase domestic consumption of real dairy products. Now it's time, we believe, that both the Congress and the Administration work together with our nation's dairy farmers to create and implement a reasonable and workable dairy policy.

Statement by Jerome W. Hammond, Professor
Department of Agricultural and Applied Economics
University of Minnesota

at the hearing of the

Subcommittee on Livestock, Dairy, and Poultry
Committee on Agriculture
U.S. House of Representatives

Melrose, Minnesota
Saturday, October 3, 1987

A Perspective on the Dairy Termination Program and Long-Term Trends in the U.S. Dairy Industry

<u>Impacts of the Dairy Termination Program</u>

The large excesses of milk supplies over commercial use that has characterized the U.S. dairy industry has been reduced to its lowest level since 1979, net CCC dairy product purchases for price support in 1987 will likely fall near 5 billion lbs. milk equivalent. The Dairy Termination Program (DTP) has been the major factor in bringing reduced milk production. This program, that paid producers to exit dairying for at least five years by slaughter or export of dairy cows and heifers, began on April 1, 1986 and ended on August 31, 1987. Exiting milk producers were paid for 12.3 billion lbs. of milk. The total number of animals to be exported or slaughtered under the program was 1.6 million head, which represented, in comparison to 1985, 5.1 percent of the nations dairy farms, 8.7 percent of the milk production and 8.6 percent of the national dairy herd.

The program has been subject to a number of criticisms, its impact is only short term, it paid producers to exit dairying who would have exited regardless of the program, the program is costly-

producers received an average payment of $14.50 per cwt. of one years milk production, and there was essentially no incentive for non-participants in the DTP to hold or reduce milk production.

Nevertheless, I submit that the program did achieve its principal objective, to remove 12.3 billion lbs. of milk production from the market. That is not to say, 12.3 billion lbs. less than 1985. Rather, milk production in 1987 would have been in excess of 150 billion lbs. instead of 141.2 billion lbs. and that difference would have been additional CCC purchases. The impact on monthly milk production is quite apparent from the changes in monthly milk production from year earlier levels as shown in Table 1 and annual production in Table 2. The national dairy herd was substantially reduced in a short period of time. For Jan.-Mar 1986, the quarter prior to the DTP, the national dairy herd totalled 11,126,000 cows. On June 30, 1987, the herd totalled 10,400,000, down 6.7 percent. Furthermore, the DPT cost, some of which was recovered by assessments on milk sales of all producers, is less that the cost of removal and subsequent costs of the CCC product purchases. The current CCC cost of buying a hundredweight of milk is $12.57 in the form of butter and nonfat dry milk and $12.72 in the form of cheese. This payment would be made for each of each years purchases, unlike the DPT where one payment of $14.88/cwt for one years production was made to remove that much product for five years. The government also incurs additional cost for storage and processing and packaging for disposal in noncommercial outlets.

Expanding commercial demand also helped to reduce government

dairy program costs--1986 was the third year consecutive year that total commercial dairy product use expanded 2.2 percent or more over year earlier levels, see Table 3. For the first six months of 1987, commercial use was up 2.7 percent over year earlier levels. Though many analysts have argued that the long-term expansion in commercial use will slow to about the population growth rate, it continues to substantially exceed that rate. Most analysts forecast an increase of 2 to 3 percent for all of 1987. As in the past three years, the growth is being led by increased use of lowfat milk, ice cream, cheese, particularly, foreign type cheeses, and butter, see Table 4. The expansion in commercial use is the result of population growth (about 1 % per year), rising per capita incomes, a strong economy, continuing shifts of food consumption away from the home which generally favors increase dairy product use, only small in increases in retail dairy prices that have been less than price increases for all foods, and the expanded generic dairy product promotion program. This latter began in 1985 when federal legislation imposed mandatory assessments on milk producers for promotion. It approximately doubled the revenues for generic promotion and market development.

Producer prices for manufacturing milk in 1987 have been just over $11.00/cwt., but even with a reduced support price, have shown improvement over year earlier levels, see Table 5. The real producer price has improved additionally because the producer assessment was reduced by $.15/cwt. on January 1, 1987. The all-milk price has exhibited the normal seasonal pattern as the higher prices that are paid for fluid use milk are moderated by seasonal changes in

quantities of milk used in manufactured dairy products. This price is now beginning to rise as we move into the low production months.

Prospects Through 1988

The pattern of U.S. milk production during the remainder of 1987 will be influenced by the final herd disposals under the DTP. I estimate that about 1 percent of the national dairy herd was slaughtered or exported in August. This will add an additional component to the normal seasonal decline in milk production. As a result, we should not see any major expansion in milk production before the end of the year. Milk production for all of 1987 will be, at 2 percent below 1986, at 141.2 billion lbs. (Table 6). A very favorable milk-feed price ratio during fall months will encourage feeding, offsetting somewhat the reduced herd size. As always, changes in forage quality and weather conditions can easily bring a change of 1% or more in milk production in either direction.

Commercial demand, is not likely to maintain the expansion of the first six months of 1987, but it will show additional growth. Butter sales increased by a remarkable 8 percent during the first six months. Even with a slowing of the growth rate this fall, 1987 will set another record in total commercial utilization of dairy products. We estimate a minimum increase of 2 percent for the year which would bring total use to 137 billion lbs. (Table 6).

With the normal seasonal decline in milk production, the additional impact of the final DTP cattle sales, and expanding commercial use, CCC purchases for price support for the remainder of 1987 will be small. Calendar year CCC dairy purchases are now at 4.84

billion lbs. milk equivalent. Its likely that some sell-back of CCC dairy products to the trade will occur this fall as current supplies fall short of current demands. Total CCC purchases for the year should not exceed 5 billion lbs.

Producer milk prices will rise above support levels this fall. However, the support price for milk was reduced by $.25 to $11.10/cwt. on October 1. Because the of the $.25/cwt. producer assessment was also eliminated, the effective producer support price will be unchanged. If, as I expect, sell-back of CCC stocks occur, then milk prices will rise by the hundredweight equivalent of the sell-back price prices, about $.70 per cwt. of milk to about $11.80. The dairy outlook for 1988 has two very important implications: (1) the projected excess of supply over commercial demand (CCC purchases) determines the level of the 1988 price support for milk, and (2) it will determine whether or not major efforts are made by the industry to implement a marketing quota program to control milk supply.

Several factors will be significant in determining milk production in 1988. Manufacturing milk prices may still be above support on January 1, but they will fall to the support price in early 88. But, what support price? If projected CCC purchases exceed 5 billion lbs. of milk equivalent, the Secretary of Agriculture is required to reduce the support price by $.50/cwt. to $10.60. From fall 1987 price highs, the actual producer price could fall by more than $1.00/cwt by next spring. Without a change in support, the decline would be $.50 to $.70/cwt. At most next years manufacturing milk prices will be no higher than summer 1987 levels.

Milk producers will see very high milk-feed ratios this fall and winter. Though declining in 1988, they will continue high relative to historical levels. Consequently,there will be the incentive for dairymen to feed more animals and larger quantities per animal. Feed and feed grain price will determined by the loan rates under the feed grain program. The corn loan rate for fall 1987 was reduced from $1.92 to $1.82 per bushel. Because of harvest period storage limits, market prices for feedgrains are likely to fall below the loan rates.

We will continue to see increased milk production per dairy cow, because of both, increase levels of feeding and because of increasing productive capacity of the dairy cow. During the 1980's, production per cow has increased in every year except 1984 when the federal dairy diversion program was in effect, (Table 2). The average annual increase, excluding 1984, was 2.34 percent.

Cattle price increases or expectations of additional gains next year could make culling of dairy herds more attractive than it has been. The outlook for large cattle price increases next year appears to be unlikely. Furthermore, the number of herd replacements, heifers 500 lbs. and over, relative to the milking herd is near the historical high and, in fact, has increased since last year. The ratio of replacements to dairy cows was 43.2 per 100 cows on June 1, 1987 compared to 42.2 per 100 cows on June 1, 1986, Table 7. Culling could be increased during 1988 without reducing the national dairy herd. Furthermore, the replacements will be more productive than the culls. Thus, even with higher beef prices as an incentive for increased culling, it will have little impact on U.S. milking herd.

Several other factors will also lead to some increases in production in 1988. Increased profitability of some farm enterprises, such as beef, could attract some resources from dairying, but production controls for most other major farm commodities eliminates the potential for any major resource transfers to those enterprises. Dairying is still the relatively most attractive of the major farm enterprises in terms of profit, level of risk, producer requirements to receive price support, and government program limits on expansions. Producers do not need to cut back production to receive price support as with food grains, feedgrains, and cotton. Production may also be influenced by the desire to 'build production base' because of an expectation that marketing quotas will be imposed on the industry as a condition of price support in the next few years.

Total milk production will increase in 1988 by, at least, the recent annual per cow yield increases of 2.34 percent, to 144.5 billion lbs. However, I believe there is a strong likelihood that the number of dairy cows will also increase.

Milk consumption will continue to expand, although at a reduced rate. The same factors that have accounted for the increases in recent years will continue: another 1 percent increase in population, a well funded generic promotion program, a strong economy that will maintain consumer purchasing power, an increasing proportion of food consumption outside of the home, and, except for fall 1987, stable if not some reductions in retail dairy product prices. Total dairy product consumption will increase by a minimum of 1.2 percent. Stocks, imports or farm use will show little if any change, but are

small relative to the total market supply-demand picture in any case.

Producer milk prices in 1988 will most likely be near support throughout the year, either $10.60 with a price support reduction or $11.10 without a reduction. Do not expect the fall price increases above support that occurred in 1986 and have begun for fall 1987.

Net supply and demand changes in 1988 will lead to CCC purchases of, at least, 6.5 billion lbs. of milk equivalent of products, somewhat more if the price support is not reduced on January 1, Table 6.

Long-term Outlook (1989 and beyond)

The long term outlook for the dairy industry for 1989 and beyond will be significantly influenced by the kind of price support programs that are operating. Assuming real price no greater than those reflected in the possible price changes required by the Food Security Act of 1985, commercial demand for milk will expand, but certainly not at the rate of the past several years. Per capita cheese use, which has been a major factor in expanded total dairy product use and which has expanded for more than two decades, will level-off. In total, we can reasonably expect average annual total commercial use of milk to expand somewhat more than the rate of population growth. I project annual increases of 1 to 1.2 percent which will lead to a total commercial demand of 140 billion lbs. of milk by 1990.

Milk production, even with the tree price support declines that are authorized in the FSA of !985 will be more than adequate to meet commercial needs. Dairy farmers will continue to make technological and management improvements that will expand milk production, at

least, at the rates experienced in the non-supply restriction years of the 1980's, see Table 2. That average rate 1.94 percent for the years 1980 to 1986 would lead to milk production of 155.6 billion lbs. in 1990, obviously, more than needed for any likely level of demand.

For the longer term, the projected supply demand imbalance is even more dramatic. Total annual commercial use with a 1.2 percent annual increase will be 160 bil. lbs. by year 2000. I've projected the dairy industry structure to just meet commercial those needs in 2000, assuming that production per cow and average herd size will continue to increase as they have from 1980 to 86, see Table 2. Production per cow will be 17229 lbs. annually compared to 13293 lbs. in 1986. Only 9.3 million dairy cows will be needed, a 14 percent decline to meet dairy product needs. Average herd size will be 81 cows compared to 42.5 in 1986. Thus, only 114722 herds will be required, a 55 percent decline to meet commercial demand. Adoption of BST would bring about even greater declines in cow numbers and herds. Its impact on commercial milk production is uncertain. We have no good estimates of its actual impact, but probably another 5 to 10 percent if approved by FDA.

Regardless of a continuation of strong demand growth, I think it's obvious that potential production will exceed dairy product needs. This situation will begin to emerge sometime in 1988. Thus, the \$.50/cwt. price support reductions that a mandated in the 1985 FSA for 1989 and 90, if projected milk supply exceeds commercial demand by 5 billion lbs., will be imposed unless the law is amended. Another option permitted under the FSA is to implement another herd buyout

program, either a partial or whole herd buyout. The recent buyout indicates that the procedure can bring about a rather rapid reduction in supply. To date this option has not received much discussion, either by the USDA or the industry. At this point, it appears unlikely.

The pressure on the dairy industry to make major and continual structural adjustments (reduced cow numbers and herd numbers) throughout the remainder of the century is a certainty. This could be accomplished by additional, but probably severe additional price support reductions. The herd buyout programs are a possibility, but they entail high costs at the time of the buyout and are effective essentially for the contract period and impact only on participating producers. Another alternative to control the supply response process is a mandatory marketing quota program. Numerous variations are possible, but it would limit entry and expansion in the industry, it would guarantee minimum prices on a specified marketing quota which would be assigned to each producer. These quotas will acquire a value directly by being made negotiable or through increased values of milk producing resources if they are not negotiable, regardless of the assertions by some proponents of supply control and regardless of the design and limitations of the program.

Summary and Conclusions

In summary, the near term outlook for the U.S. dairy industry is for rising milk and dairy product prices during the fall months. Production may begin to expand, but not in a major way until next spring. If the rebound of production is not underway by December, the

price support reduction that is to be triggered on January 1 if projected 1988 CCC purchases exceed 5 billion lbs. may not be imposed. The next two adjustments are reasonably certain. Beyond 1988, effective support prices without conditions on entry or expansion will lead to huge government acquisitions, high government costs, and the problems associated with disposal of the acquired commodities.

(Attachments follow:)

TABLE 1

CHANGE IN MONTHLY MILK PRODUCTION FROM YEAR EARLIER LEVELS, JANUARY 1986 - JULY 1987

MONTH	% CHANGE 1985 - 86	% CHANGE 1986 - 87
JAN	+8.3	-3.9
FEB	+8.1	-3.1
MAR	+6.2	-2.7
APRIL	+4.9	-2.4
MAY	+3.0	-2.3
JUNE	+ .6	-1.5
JULY	-1.4	- .3
AUG	-2.8	
SEPT	-3.1	
OCT	-4.1	
NOV	-3.5	
DEC	-3.6	

TABLE 2

U.S. MILK PRODUCTION

YEAR	NO. OF COWS	MILK PER COW	TOTAL PRODUCTION
	(MIL. HEAD)	LBS.	(BIL. LBS.)
1980	10.80	11,891	128.4
1981	10.90	12,183	132.8
1982	11.01	12,306	135.5
1983	11.10	12,585	139.7
1984	10.83	12,506	135.4
1985	11.03	13,031	143.15
1986	10.84	13,293	144.08

TABLE 3

COMMERCIAL USE

YEAR	PER CAPITA LBS.	% CHANGE FROM YEAR EARLIER	TOTAL COMM. USE (BIL. LBS)	% CHANGE FROM YEAR EARLIER
80	525	-2.2	119.0	-.9
81	523	- .4	120.3	-1.1
82	525	+ .4	122.1	+1.5
83	523	- .4	122.5	+.3
84	536	+2.5	126.9	+3.6
85	547	+2.8	131.1	+3.3
86	557	+1.8	134.3	+2.4

D.S. JULY 1986

TABLE 4

COMMERCIAL USE OF SELECTED DAIRY PRODUCTS, JAN. - JUNE 1986 AND 1987

	JAN - JUNE 1986	JAN - JUNE 1987	PERCENT CHANGE
	(MIL. LBS.)		
BUTTER	418.7	451.4	+7.8
AMERICAN CHEESE	1150.5	1188.6	+3.3
OTHER CHEESE	1267.6	1347.8	+6.3
NONFAT DRY MILK	212.1	214.8	+1.3
ICE CREAM	446.1	454.1	+1.8

TABLE 5

JANUARY - AUGUST U.S. MILK PRICE, 1986 & 1987

	ALL MILK SOLD TO PLANT			MANUFACTURING GRADE MILK		
	1986	1987	DIFF.$/CWT	1986	1987	DIFF.$/CWT.
JAN	12.50	13.30	+.80	11.60	12.00	+.40
FEB	12.40	12.90	+.50	11.50	11.60	+.10
MARCH	12.20	12.50	+.30	11.30	11.30	0
APRIL	12.10	12.30	+.20	11.20	11.20	0
MAY	12.00	12.00	0	11.10	11.00	-.10
JUNE	11.90	11.80	-.10	11.00	10.90	-.10
JULY	11.98	11.94	-.04	10.90	10.95	+.05
AUG	12.25	12.22	-.03	11.30		

TABLE 6

SUPPLY-UTILIZATION OF MILK IN
THE U.S. 1986-1987

	YEAR		
	1986	1987*	1988*
		(BIL. LBS.)	
PRODUCTION	144.1	141.2	144.5
FARM USE	2.3	2.1	2.1
MARKETINGS	141.8	139.1	142.4
BEGINNING COMM. STOCKS	4.6	4.2	4.2
IMPORTS	2.7	2.7	2.7
TOTAL SUPPLY	149.1	146.0	149.3
COMMERCIAL USE	134.3	137.0	138.6
ENDING COMM. STOCKS	4.2	4.2	4.2
NET GOV'T REMOVALS	10.6	4.8	6.5
TOTAL DISAPPEARANCE	149.1	146.0	149.3

* PROJECTECD

TABLE 7

U.S. DAIRY CATTLE INVENTORY, JUNE 1

	1986	1987 (1000 HEAD)	%CHANGE
MILK COWS	10,900	10,400	-4.8
REPLACEMENT HEIFERS	4,600	4,500	-2.2
RATIO	42.2	43.3	

TABLE 8

OUTLOOK FOR COMMERCIAL USE AND
MILK PRODUCTION, FOR U.S. DAIRY INDUSTRY
(YEAR 2000)

		% CHANGE FROM 1986
TOTAL COMMERCIAL USE	160.1 BIL. LBS.	+18
PRODUCTION SECTOR TO MEET COMMERCIAL USE*		
- PRODUCTION PER COW	17,229 LBS.	+29.6
- TOTAL NUMBERS OF MILK COWS	9,292,982	-14.3
- AVERAGE NUMBER OF COWS PER HERD	81	+90
- TOTAL NUMBER OF HERDS	114,722	-55

*ASSUMPTION OF 1980-86 TRENDS IN PRODUCTION PER COW AND HERD SIZE.

STATEMENT OF MARLYS SOPKOWIAK

My name is Marlys Sopkowiak. My husband and I own and operate a 40 cow dairy farm in Benton County.

Since 1980 we have been concerned about the number of mid-sized family farmers who have either been forced out of dairy or bribed out of it. We see two threats: technology and politics.

Dairy farmers have been displaced by advanced technology in genetics, feeds, veterinary science and computers. Now the introduction of Bovine Growth Hormone has been advocated by its manufacturers as a means of making the good managers even more efficient. In reality, it is a means to shake out more farmers, leaving the market to a smaller number of farmers or corporations.

Farmers have turned to the federal government for help, and, yes, the amount spent for agriculture has increased. But, corporations and big agri-businesses have received the lion's share--not the family farmer.

When we question why we import so much casein from Europe and sell so little food and manufactured goods to Japan, we are given some vague answer about free trade. The fact is that Europe and Japan do not need to spend money on defense because we do it for them. If they had to pay us to defend them and pay to protect their interests in the Persian Gulf, they would not have the money to wage economic war on the American farmer.

When we complain that third world farmers are taking our markets, we are told that we must be more competitive. But how can we compete with people whose yearly living expenses are less than what we pay in real estate taxes alone?

When we complain that factory farms in the southern United States are paid more for milk than we are, we are told that they deserve more because they have higher production costs. Wouldn't fair competition dictate that we should be allowed to dry our milk down, ship it to Florida and reconstitute it if economically feasible? Wouldn't that be fair competition? Wouldn't that be better than allowing an Irish corporation like Masstock International produce subsidized milk? The factory farms in the South are already being subsidized by Midwest grain farmers who are forced to sell grain at less than cost of production.

When farmers have come to you in the past, asking for limits on production, as most of the feed-grain programs have done, we are told that our base will be determined by how much we have planted in the past. Farmers who limited the amount of corn they planted and practiced soil conservation by leaving some land in forage, are now the ones who are being penalized by having a smaller base. Some dairy farmers are anticipating a quota system for dairy and are expanding their herds to increase their base, thus defeating the DTP. If quotas or supply management are imposed, please do not reward those who have expanded in the past few years--you would only be encouraging surplus production.

What I'm asking for is a system that is democratic enough to allow all of us who are still in farming to remain in farming--not a system that continually tries to shake out people at the bottom so the ones on the top can get fatter.

I'm asking you to consider a system whereby each producer (be it an individual family farmer or a corporation)

be paid a good price for the first so many pounds of milk, with any extra production to be sold at market value. This fair minimum price can either be accomplished through the marketplace, or through government subsidies. But, unlike the unchecked subsidies of the 70's which only encouraged expansion, this plan would limit expansion. Those who did expand would do so at their own risk.

Yes, the large producers will complain that it's not the capitalistic way. But they never complained about government programs which gave them an unfair advantage. It's time we recognize that unchecked competition ultimatley leads to an ag economy which benefits a few land owners and cattle barons, making the rest of us into peasants. Putting control of production into fewer and fewer hands may be profitable for a few in the short run, but not good for American consumers in the long run. The airlines are a good example of mergers not benefiting the people. By depending on a smaller and smaller number of farmers for our food supply, we are increasing the chances of foreign investments eventually controlling our food supply, and we are encouraging monopolies which will eventually charge the consumers more for food.

Congressman Stangeland, the Democrats always accuse the Republicans of favoring big business. Please do not pass them the ammunition. Consider a plan which would put the individual family farmers ahead of agri-business. Do it not only for us, your constituents, but for the American consumer.

Marilyn Sopkowiak
9790 [illegible] Ave NE
Foley, Minn 56329
[illegible] 387-[illegible]

Charles Stenholm Hearing, Melrose

My name is Cyril Scherer. I am a dairy farmer in partnership with my 29 yr old son. We milk a little over 100 cows together. We hire some part time help.

I am active in the Minnesota Farm Bureau Dairy Advisory Committee, both on the State and National level.

Last year I was assessed over $90 per cow in order to cover the cost of the Herd Buy-out and milk promotion. On our farm this amounts to over $10,000.00.

The results of both programs have been better than expected. Even with the price cuts and assessments I was paid almost the same in 1985, 1986, and 1987. Plants are paying over support by more than $.50 cwt. for the first time since 1979. The years 1980 thru 1986, the manufacturing price was -$.17 to -$.47 cwt. lower than support.

Year	CCC purchases (bil. lbs)	Mfg. price exceeds support $/cwt.
1978-79	1.1	+.54
1979-80	8.2	-.17
1980-81	12.7	-.39
1981-82	13.8	-.47
1982-83	16.6	-.44
1983-84	10.4	-.21
1984-85	11.5	-.15
1985-86	12.3	-.23
1986-87	5.3 (est)	+.46 (first half of yr.)

Charles Stenholm Hearing Melrose Page 2

Even the price of beef went up during and after the Herd buyout. The price of dairy feeder steers is at an all time high in Minnesota. Since there are 1.5 million less dairy animals to raise calves from at this time

The herd buyout also stopped a lot of product from going into CCC storage! When CCC storage is low it will quickly reflect on the market price. Let's look at all the dollars saved by not having to buy another 7.5 billion pounds in 1987

Nation wide replacement heifer numbers are high! Milk production may again start moving up too high. Buying off some of the production before it is produced is still the best way to go either by buying out the farmer, the cows, or the heifers!

Quota systems don't do what they are intended to do. Quotas quickly put little farmers out of business! See attached "QUESTION OF QUOTAS"

Dairy farmers in central Minnesota have rather small farms. Many of them do not have enough acres to put any land in the set aside programs. Even those that do are in the program this year are penalized by the loan program if they want to store their feed wet! This is the cheapest, most common, and in most cases the only storage for lots of dairymen's corn crop.

I think the 10 year land retirement program is very good at this time.

Charles Stenholm Hearing - Melrose   page 3

Government Dairy programs need to be related to the national production level.

As a Minnesota dairyman, I feel we can produce milk as efficiently as anywhere in the U.S. Large numbers of families on small acreage best serve the conservation needs of our soils. Dairying has been the mainstream of the Central Minnesota area and it looks to me like it will continue to be.

Thanks for the opportunity to appear.

[illegible]
Route 2
Freeport, Mn 56331
(612)-836-2158

(Attachments follow:)

Exhibit A

Stearns County Farm Bureau Ass'n

"To do together for Agriculture those things that we cannot do as individual farmers"

P.O. BOX 370
ROCKVILLE, MINNESOTA 56369
Telephone: 612-251-9161

1986

A QUESTION OF QUOTAS

If you are like me, when you drive past a used farm machinery lot and you see a used machine with a bright new coat of paint, you know that shiny paint may be hiding a few "flaws".

Dairy farmers today are being presented a used machine called "Quotas" with a nice sound to it. Quotas have been used by almost every gov't in history, usually to make sure farmers produce enough for everyone else as well as themselves. It's been a great way to tax farmers too. Here is a look under the paint and a look at how quotas in other countries are turning out.

Those who are selling this system in the U.S. say:

1. We will just control the supply. BUT. . .
   Canada, England and France control the price too. All milk must be sold to the control board.

2. Farmers on the market control board will set the price of milk. BUT. . .
   Canada, England and France set up formulas the board must use to determine the price.

3. Our quota won't have any value. BUT. . .
   Canada has their system for 15 years. They admit there is no way to stop quotas from gaining value. It costs Canadians $3000 to add one cow at 13,000 # production.

4. We'll sell more milk under quotas. BUT. . .
   Canada's market has been stagnate for years. England's fell after quotas. In the last three years, our commercial sales have increased 10% (this does not include gov't sales).

5. No more surplus or assessments. BUT. . .
   England's surplus increased right away because of less product sales. Canada names their surplus excess production and dumps it on the world market. And assesses every hundred weight of manufacturing milk $1.91 to pay for doing it.

6. I can produce as much as I want just so I don't go over my quota. BUT. . .
   All quotas in the world are supply management systems. They don't want too much, and they don't want too little either, so you have to produce enough milk to reach your quota.

7. Won't cost the gov't anything. BUT. . .
   Canada's system is the most expensive part of their ag. program, by far.

8. Quotas will be good for the smaller family farm. BUT. . .

(continued on back ~~page 2~~)

Canada lost 65% of their small dairy farms in 15 years, and is still losing nearly 2000 per year. Many English dairymen quit as soon as their quota system started because it was so unprofitable. France is using their quota system to get rid of their smallest dairy farms.

9. Canadians get more money. BUT. . .
   Only southern Ontario and Quebec have mid-Minnesota weather. The cost of production is higher because most of Canada cannot grow corn, and yields of alfalfa are smaller than ours.

10. We will cut only the big guys in California or elsewhere. BUT. . .
    California has 45 representatives in Congress. It would take Minnesota, Wisconsin, Iowa, North and South Dakotas, Nebraska, and Michigan to out vote them. Then we still have to out vote Arizona, Texas, Florida, the Carolinas, and New York--all of whom average bigger herds than us.

Some things to consider:

Canada's dairy production is slowly moving to Quebec and Ontario where around 50% of their people live. Most of U.S. citizens live on the two coasts. So, what would happen to Minnesota dairymen???

Canada is trying to get us to adopt their system. That might be because our surplus, before the herd buyout, would have been about 17 billion pounds. In 1985 Canada produced 16.9 billion pounds all together. What if we wanted to trade our surplus milk for their surplus hogs???

The Canadian cost of quotas would raise the price of a 50 cow dairy farm by $150,000. Young farmers would find it even more difficult to get started.

It appears quotas could increase the price of milk, help cut surpluses and gov't costs; however, there is no guarantee. What if the higher prices are eaten up by higher costs ($3000 a cow quota)? We may still have surpluses and assessments, and the gov't may still be spending too much money on dairying. It will get more expensive to buy a dairy farm; in Canada, farms are twice as expensive with quotas. It will be more difficult for young farmers to get started; there will be more pencil pushers, less competition among handlers (because they become fewer in number after quotas), and a general stagnation of the industry.

Whether we end up with a supply management system, or not, will depend on if we see the flaws in the used machine under the shiny new paint.

Stearns County Farm Bureau

Dairy Advisory Committee

Cyril G. Scherer

Table 1: How Farm Sales of Milk and Cream Were Utilized, by Provinces and for Canada, 1984

Province	Total Milk Sales (millions of hectolitres)	Sold for Fluid Purposes (%)	Sold for Industrial Purposes	
			Delivered as Milk (%)	Delivered as Cream (%)
Newfoundland	.132	100.0	-	-
Prince Edward Island	.982	13.4	79.5	7.1
Nova Scotia	1.781	64.3	32.5	3.2
New Brunswick	1.346	52.2	42.9	4.9
Quebec	29.653	21.5	78.5	—
Ontario	24.753	39.6	56.7	3.7
Manitoba	2.973	36.7	52.7	10.6
Saskatchewan	2.330	44.7	46.3	9.0
Alberta	5.873	43.3	51.6	5.1
British Columbia	4.799	63.1	36.8	0.1
CANADA	74.622*	34.8	62.6	2.6

*Equivalent to 16.9 billion pounds.

Source: Catalogue No. 23-001, Dairy Review, Statistics Canada.

Table ... Target and Net Returns for Industrial Milk
(Note: Canada's dairy year commences on August 1)

Position at August 1 of Dairy Year	1981-82	1982-83	1983-84	1984-85	1985-86	% Change Aug. 81 to Aug. 85
	- US $ Per Hundredweight -					
(1) Target Return	13.49	14.45	15.25	15.02	14.85	+10.1
(2) Federal Direct Payment	2.13	2.12	2.14	2.02	1.96	- 1.0
(3) Class 3 to 6 Blend Price (Ontario)	11.56	12.64	13.52	13.44	13.36	+15.6
(4) Gross Returns in Ontario Within-Quota Milk	13.69	14.76	15.66	15.46	15.32	+11.9
(5) Deductions						
a) Within-Quota Levy	1.17	1.55	1.83	1.85	1.91	+63.2
b) Transportation	.52	.62	.66	.60	.63	+21.1
c) Licence Fees:						
(i) Administration	.05	.05	.05	.05	.05	n.c.
(ii) Promotion	.12	.17	.18	.18	.19	+58.3
- Total Deductions	1.86	2.39	2.72	2.68	2.78	+49.5
(6) Net Returns - Farm Gate	11.83	12.37	12.94	12.78	12.54	+ 6.0
(7) Over-Quota Levy	6.07	7.12	11.33	11.57	12.36	+103.6

(Note: To convert to US $, the bank exchange rates at August 1 of each of the years was used: '81 - 1.2416, '82 - 1.2500, '83 - 1.2353, '84 - 1.3085, '85 - 1.3540.)

Testimony of Delphine Sobiech
Route 1, Box 150
Royalton, MN 56373

My name is Delphine Sobiech and I operate a 20-cow, Grade A, dairy farm in Morrison County, Minnesota. I appreciate the opportunity to offer further testimony to the House Agriculture Subcommittee on Livestock, Dairy and Poultry (Melrose, MN, October 3, 1987).

While the Dairy Termination Program sharply reduced the amount of product purchased by CCC, the savings were achieved at a terrible cost to the dairy industry:

1. It destroyed the results of many years expensive breeding programs.
2. It created serious milk shortages in many areas.
3. The bidding process favored the removal of good managers as well as producers overwhelmed by debt or planning retirement. Most of the dollar payments were made to the ultra-large producers of the West and South, while most of the participants were the small, but efficient, family farms so necessary to our rural communities.
4. It further penalized the remaining family farms by the direct deduction from our milk checks of the illegal DTP assessment. We never caused the surplus and never directly received the benefits of the price support due to the immoral marketing orders.
5. The DTP will not prevent or control future surpluses. California has already increased production by 9% and Wisconsin by 3%.

In my opinion, any dairy program that fails to impose regulations on, and directly reward, individual producers is a cancer that will surely consume the industry. And the removal of price supports without regulating production is tantamount to taking away the crutch before the bone has knit.

My recommendations;

A. The opening of the 1985 Farm Act to allow for the adoption of a "quota" system.
B. A mortorium on the building of additional "cheese" plants which signal producers to increase production.
C. Restrictions on the casein imports. Our processors claim they would produce casein but they can't compete. Translation: CCC does not buy casein.
D. Elimination of the federal milk marketing orders.
E. Use our "advertising" assessments only for research and development, education and support of free milk for school children.

THEN, AND ONLY THEN, WOULD I:

F. Cut and eliminate price supports.

Please, give the dairy industry back to the milk producers.

Delphine Sobiech

Delphine Sobiech
Royalton, MN 56373

STATEMENT OF EUGENE F. PAUL

National Farmers Organization

Box 3127 Mankato, MN 56001

507-625-3600

My name is Gene Paul, a farmer from southern Minnesota and the Area Director of the Dairy Department of the National Farmers Organization.

Congressman Stangeland, let me thank you for this opportunity to present our thoughts concerning the dairy industry in Minnesota. I also want to thank Congressman Stenholm for taking the time to travel with you to the heart of the dairy industry in Minnesota.

I know you share our concern for the Midwestern dairy farmer as evidenced not only by your being here today, but also by your continuing work on this area of farm legislation. We appreciate that understanding and support.

Now I would like to relay to you some concerns we have for the future of the family dairy farmers of Minnesota. Now that the whole herd buyout has ended, we are seeing milk production increases across the country. Even though fewer cows are being milked, production per cow is increasing. This can be traced, in part, to low grain prices made available by lower loan rates and our grain surplus situation. This is proving once again, that low grain prices lead to additional livestock and milk supplies. With another drop scheduled in the support price, we can expect the milk supply to increase even further, as farmers increase production to meet cash flow needs. We believe that a permanent long range supply management program is needed, with prices

set at levels that will allow Midwestern dairy farmers to meet cash flow needs. We would urge that Congress rescind the price support cut scheduled for January 1, 1988.

We are aware that some groups will be urging Congress to add on .05 cwt. and possibly even .10 cwt. to the national promotion program in an effort to sell more product and thus avoid the 5 billion lb. CCC trigger. We are not opposed to promotion, but we are opposed to implementing those programs without a vote of the producers. We further believe that dairymen have enough intelligence to cast their own vote and not be subjected to block voting by anyone who professes to represent them.

We are also deeply concerned that some groups are attempting to ressurrect the "market service payments" concept after the Secretary has resisted earlier efforts.

The language in the 1985 Act which forced another round of hearings seemed quite unnecessary to many of us. It is a disservice to producer in other organizations to propose checking off their money for the support of co-op organizations in which they are not members. Such producers have not asked the co-ops to undertake the market domination. If the co-ops can't move milk profitably for their own members in any particular market, they should not undertake to do so. I am sure they do not engage in such market improvement activity for charitable reasons.

My own organization would be eligible to seek such payments in a number of markets, but we have always resisted this proposal. It cannot be administered fairly. The proposition has been turned down repeatedly by several administrators after being subjected to hearings.

Lastly, we urge you to support legislative efforts to stop the deceptive labeling of meat-topped frozen pizzas. We feel that it is only fair that consumers be truthfully informed about the product they are buying and then let them make the decision as to which product they want to buy.

I thank you once again for this opportunity to express my views.

EFFECTIVENESS OF THE DAIRY TERMINATION PROGRAM AND THE DAIRY SECTION OF THE FOOD SECURITY ACT OF 1985

MONDAY, NOVEMBER 2, 1987

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Westminster, MD.

The subcommittee met, pursuant to notice, at 9:30 a.m., in Carroll County Agriculture Center, Westminster, MD, Hon. Charles W. Stenholm (chairman of the subcommittee) presiding.

Present: Representatives Harris and Nagle.

Also present: Representative Byron.

Staff present: Daniel B. Waggoner.

OPENING STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. This public hearing of the House Agricultural Subcommittee on Livestock, Dairy, and Poultry will now come to order.

Good morning to each and every one of you. I am Charlie Stenholm of the Seventeenth District of Texas. It is my pleasure to welcome each and every one of you to this hearing this morning.

The subcommittee looks forward to receiving testimony and written statements focused upon the effectiveness of the Dairy Termination Program and the dairy section of the 1985 farm bill.

On my left I am sure you recognize my colleague and your Representative, the Honorable Beverly Byron. Beverly, the subcommittee would like to extend our gratitude for the invitation to come to Maryland in order that we might have a firsthand opportunity to listen to and discuss with your constituency the many issues facing the dairy industry.

I also want you to know that this member and this subcommittee appreciate your strong support of the efforts made in Congress over the years to assist U.S. dairy farmers.

On my right I am pleased to introduce two of my colleagues, Congressman Claude Harris, representating the Seventh Congressional District of Alabama, and Congressman Dave Nagle representing the Third Congressional District of Iowa.

I have found in my brief service in the Congress that it is always helpful to get home and listen to your constituency and more importantly, it is good when you have the task and the challenge that we have on this subcommittee. It is good to get out and listen to

other constituencies and again, Beverly, for that we thank you for affording us this opportunity.

I am sure that all of us remember that prior to the 1985 farm bill, the dairy industry was filled with a lot of uncertainty. Milk production was increasing at an unprecedented rate of 8 percent per month over the previous year and showed no signs of decreasing. Commodity credit corporation purchases of dairy products were mounting at an unacceptable pace. However, today the situation is much improved for which we are all grateful.

I will be the first to admit that the 1985 farm bill is not perfect and it certainly has not yet solved all the problems we are facing in some areas of agriculture. But the law has produced some progress including welcomed improvement in the dairy area. For example, the Dairy Termination Program generated some positive effects by helping reduce milk surpluses and government costs through the termination or export of dairy cattle. And we are greatly relieved for both of those. However, it is important to keep in mind that the Whole Herd Buy-Out Program should not be viewed as a solution of and by itself but as the best short-term policy tool that could be put together given the diverse interest and regional differences involved.

Serving as chairman of this subcommittee, I have become keenly aware of the diversity of the dairy industry across this country and the particular viewpoints regarding the future direction of dairy policy. Yet I cannot emphasize enough how important it is that the dairy industry and all dairy farmers be united as best we can if the agricultural community on Capitol Hill is to use all its influence to maintain a sound national dairy policy.

With this challenge before us, I look forward to listening to all of your concerns, advise, and hopefully some solutions this morning.

I would now like to turn to Beverly for any introductory remarks that she might like to make. Beverly.

OPENING STATEMENT OF HON. BEVERLY B. BYRON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mrs. BYRON. Thank you, Charlie.

First of all, let me say that I am delighted to be here in Westminster and share some of the concerns that my constituents have. As you know, I visited your district in Texas several years ago for a hearing and that hearing was basically on beef cattle and sheep. I wondered why a western Marylander was listening to those problems, but as the hearing went on, there were many of the same problems that your agriculture people have that mine do. Therefore, I think it is only right that we sit and listen to the issue that we have here today, that is the Herd Buy-Out Program, and see how that affected agriculture in Maryland, because we have a very strong agriculture, and we want to make sure that it retains its strength.

First of all, let me extend my gratitude to Chairman Stenholm for rescheduling the hearing that was originally scheduled for September 21. That was the day that we were to be on the floor with a very important piece of agricultural legislation. We were on the floor for a very short time. As the ways of Congress work, the bill

was pulled. We adjourned rather rapidly that day and we were not able to complete our legislative work that day, nor to complete this hearing. So I want to thank you for rescheduling in November what would have been otherwise a hearing that would have gone by the wayside.

I also want to thank Claude and Dave for joining you here in Western Maryland. I think we are all very proud of our districts. I know I stand with great pride in our rolling hills and our agriculture in my district. And I am delighted that you had an opportunity on a nice fall morning to come through some of Western Maryland's rolling countryside. The pumpkins are no longer in the field. The frost is not on them. The hay has long since been gathered. We have a few stalks left in the fields for you to watch, and I look forward to the testimony that we are going to hear today from some of our Marylanders that are so much a part of agriculture, specifically the dairy industry.

Thank you.

Mr. STENHOLM. Thank you, Beverly. I too would like to apologize for any inconvenience that we may have caused on any of your constituency by having to reschedule, but as you mentioned, we were supposed to have had the farm credit bill on the floor that day.

Mr. Harris.

Mr. HARRIS. I just want to tell everyone that I look forward to hearing the testimony this morning and, Beverly, one thing you did not mention was all the traffic that we had to endure. We do not have that kind of traffic back in Tuscaloosa, Alabama. It is good to be here. And it is beautiful country and I know you are proud of it.

We have got a lot of witnesses, so I will not take any more time. I am just glad to be here with you.

Mrs. BYRON. And you are glad you are going against traffic.

Mr. STENHOLM. Mr. Nagle.

Mr. NAGLE. Well, I think after Claude got done with that. I am, of course, from Iowa, and we do not have cars out there yet.

Mrs. BYRON. Be careful, they are coming.

Mr. NAGLE. I appreciate the opportunity to be here and I am going to do a lot of listening today. I am not going to ask many questions but I think it will be valuable and that is why we came and that is why we are very pleased with the facilities you have provided us.

Mr. STENHOLM. Before we call our first witness then, let me make some announcements. In order that all of our witnesses be afforded an equal opportunity to present their testimony, we would respectfully ask that all witnesses summarize your remarks within a 5-minute time period with the assurance that all written statements and supporting documents will be made a part of today's hearing record.

In addition, if there is no objection, today's hearing record will remain open for 10 days for the purpose of receiving additional and requested written information. Furthermore, we hope to have a few minutes at the end of the hearing today to receive any comments or questions from the audience.

If there are no further questions, we will proceed with our first panel and welcome, Mr. Henry A. Schmidt, director of marketing

and agriculture development, Maryland Department of Agriculture.

STATEMENT OF HENRY A. SCHMIDT, DIRECTOR, MARKETING AND AGRICULTURAL DEVELOPMENT, MARYLAND DEPARTMENT OF AGRICULTURE

Mr. SCHMIDT. Good morning. As has just been stated, my name is Henry Schmidt. I am the director of marketing and agricultural development at the Maryland Department of Agriculture.

On behalf of Secretary Wayne A. Cawley, I would like to thank Congresswoman Byron for giving MDA an opportunity to comment on the Dairy Herd Buy-Out Program.

Dairy products are the second leading agricultural commodity produced in Maryland and any program which affects this industry is of great concern to us.

In 1986, Maryland's dairymen milked 120,000 cows which generated nearly $210 million in cash receipts.

The dairy herd program has, by our observation, generally achieved what it was designed to do. That is, it has reduced short-term milk production, taken cows out of the production cycle that might otherwise have contributed to herd expansion. According to information provided by State ASCS office and the Maryland Agricultural Statistics Service, 115 or about 5 percent of the Maryland's dairymen submitted bids which were accepted into the program. Consequent to this, there has been approximately a 7 percent reduction in cow numbers and milk production.

We have been informed that more milk is now being shipped from this area toward the south, thereby improving the local supply and demand situation. Perhaps the most important benefit of the program, according to the dairymen I have talked with, is that it has made it possible for those nearing retirement age and those with serious financial problems to more easily make the transition out of dairy farming.

Although the Dairy Herd Buy-Out Program appears to have been successful in the short term, we remain concerned about the long-range outlook for dairy farmers. Minimizing Federal involvement in agricultureal commodity markets is a goal worth pursuing. But only with the understanding that it cannot be done overnight.

We would caution against making rapid and severe changes that would cause hardship for farmers who have made business decision which were based on current government programs.

I would again like to thank Congresswoman Byron for holding this hearing and allowing the Maryland Department of Agriculture to testify.

I now yield to the others who are here to testify.

Mr. STENHOLM. Mrs. Byron.

Mrs. BYRON. Let me ask you one question. You said that there was approximately a 7 percent reduction in cow numbers and milk production as a result of the buy out. I had not heard the factor that those nearing retirement age used the Buy-Out Program as an option. Those with serious financial problems were obviously one of the prime groups.

I think also the individuals that were on marginal land were another group that the buyout program gave an option to.

What concerned me was when the program first started. I had a young farmer, a dairy farmer in Frederick County, look at the program. He had been brought up in an agricultural family. He and his wife decided that they probably would profit from the program, it would be better not to continue farming because of the economics, et cetera, et cetera, et cetera. Signed up for the program. Thought about it over the weekend. Could not sleep for 3 nights. Monday came around. They tried to get out of the program. And they were not able to do that.

Did you find many of the people that were in the program that 3 or 4 months later sort of had regrets or have you had many comments on that aspect?

Mr. SCHMIDT. The main comments that I personally heard from some of the farmers, it was like losing part of their family. When they were loading the cows, shipping them off their farm, they had a hard time accepting that. It was just like one of their children leaving home. I guess you call it withdrawal pains. But other than that, I have not heard any comments.

Mr. STENHOLM. Mr. Harris.

Mr. HARRIS. No questions.

Mr. STENHOLM. Mr. Nagle.

Mr. NAGLE. No questions.

Mr. STENHOLM. You mentioned the 7 percent reduction figure. Do you have any figures regarding the heifer buildup in Maryland? Nationally we are a little bit concerned with the ratio of heifers per 100 cows.

Mr. SCHMIDT. We would have those numbers. I do not have them with me.

Mr. STENHOLM. Thank you very much for your testimony today.

Next we will call our second panel, Dr. Brown, Dr. Wysong, Dr. Barao and Dr. Cassel.

Dr. Brown, we welcome you.

STATEMENT OF EARL H. BROWN, PROFESSOR, DEPARTMENT OF AGRICULTURAL AND RESOURCE ECONOMICS, UNIVERSITY OF MARYLAND

Mr. BROWN. Thank you very much, Mr. Chairman.

Our testimony this morning with Mary Donaldson who is a graduate student of mine at the University of Maryland is based on the results of a study done in 1986 and 1987 on the impact of the Dairy Herd Buy-Out Program in Maryland. Copies of our paper were sent to Congressman Byron's last week; 118 of Maryland's 2,000-plus farms with milk cows participated in the Dairy Herd Buy-Out Program. These 118 farms accounted for about 5 percent of the dairy farms in Maryland, about 10 percent of the cows, and about 7 percent of the milk in 1985. We estimated that the cost to the Government of the dairy herd buy-out in Maryland was about $19.4 million over a 5-year period. This averages out to be about $160,000 per farm that participated. The cost was partially offset by an assessment of about $7.9 million against the milk production of the remaining producers in Maryland in 1986 and 1987.

The objectives of this study were to determine, one, if there were any significant differences between those dairy herds in Maryland that participated in the program and those that did not. And second, to find out some of the reasons why farmers did participate.

Comparisons were made for the State of Maryland as a whole and for the top eight dairy counties in Maryland. That is, Frederick, Carroll, Washington, Harford, Kent, Cecil, Garrett and Baltimore. In addition, a case study was conducted in Harford County to collect personal data on dairy farm operators and to see why farmers participated in the Buy-Out Program.

Mary Donaldson, a former graduate student at the university, worked on this project and she will summarize the findings.

[The prepared statement of Mr. Brown appears at the conclusion of the hearing.]

STATEMENT OF MARY F. DONALDSON, GRADUATE STUDENT, UNIVERSITY OF MARYLAND

Ms. DONALDSON. Good morning.

We did not find a significant difference in either herd size or milk production per cow between Dairy Herd Improvement Association producers who participated in the dairy herd buy-out and those who did not participate. Yet there were differences in other factors. Participating Dairy Herd Improvement Association herds average more days open, more days in milk, longer calving intervals, and lower percentage of herds with low somatic cell counts. One could conclude that on average, Dairy Herd Improvement Association farms with producers who participated in the dairy herd buy-out, were not as well managed as Dairy Herd Improvement Association farms with producers who did not participate in the dairy herd buy-out. This does not mean that every participating Dairy Herd Improvement Association herd was less well managed than nonparticipating Dairy Herd Improvement Association herds.

There were additional herd and personal factors that affected the farmers' decision whether or not to participate in this program.

In Harford County, the average herd size and milk per cow were less for participating herds than for nonparticipating herds as they were for herds throughout the State and in the other top dairy counties.

Other differences noted about dairy herds in this county were that participating operators tended to be older; they were better educated; they had more debt; and they did hold off-farm jobs more often than nonparticipating operators.

In order of decreasing frequency, the reasons given for Harford County dairy operator participation in the Dairy Herd Buy-Out Program were: one, inadequate income from farming; two, retirement; three, off-farm employment opportunities; and four, high debt.

[The prepared statement of Ms. Donaldson appears at the conclusion of the hearing.]

STATEMENT OF JOHN W. WYSONG, PROFESSOR, DEPARTMENT OF AGRICULTURAL AND RESOURCE ECONOMICS, UNIVERSITY OF MARYLAND

Mr. WYSONG. Mr. Chairman, Mrs. Byron, other Congressmen and guests here today. I would like to address mainly the issue of whether there has been any profit enhancement or any cost reduction through these programs that have taken place and some of the things that the extension programs, research programs, have resulted in.

Modern dairy farmers in the eighties have emphasized resource cost control and adjustment to market and government program incentives in order to economically survive in domestic and farm markets with surplus dairy production. The reduction in effective net onfarm prices for milk and cull cattle and calves from 1981 through 1986 has had adverse effects on average net dairy farm incomes. It has had effects on the net cash flows, reduced cash flows, and the general ability to service farm business debts and maintain or improve levels of living of people working on farms and owning farms.

There are some data I want to present as a result of a study analysis of Maryland Cooperative Extension Service of selected case study farm businesses that have demonstrated that selective resource productivity adjustments can help some, but not all dairy farmers survive and prosper economically.

In addition, the resource adjustments have contributed to lower real costs for national food supplies required by domestic consumers of real dairy products.

So I want to make the point that even though the farm price has declined and the retail price has tended to level out over the last several years, particularly during this program and even some before, the combination of this with the rising consumer incomes has meant that dairy products have become relatively less expensive and therefore consumption has increased very substantially in the last 2½ to 3 years.

Part of this has been due to the advertising promotion programs and part of it, as I say, just an economic phenomenon of what has happened.

One of the things that we have found is that farmers in this area have been able to make some response and shift resource adjustment, but they have not been able to do enough of it to fully offset the decline in price. In 1986 the Middle Atlantic Order No. 4, Federal Order, Marketing Area Blend Price was $12.66 per hundredweight. This gave a generated income of about a little over $64,000 or gross receipts from milk sales and there was also about $10,000 to $12,000 of sales of grain, cull cattle, and other items.

As recently as 1984, just before this program took effect, when it was passed in 1985, the average dairy farmer was producing only about 464,000 pounds of milk per worker, but the blend price was $13.67 in Maryland, or at least in Order No. 4, and most of the milk in Maryland does go through the Order No. 4 mechanism.

This lower technical productivity of labor and management resources combined with a higher average price received resulted in gross receipts of about $63,000, so in other words, it was slightly

less, even though the price was more, the productivity was considerably less, and it about balanced out. In other words, those farms that we looked at were able to maintain in many cases their gross income but their net often declined because they incurred some additional expense to get this additional output.

Now, one of the unfortunate aspects of it is—unfortunate, at least, in the sense of those farmers that have been in business awhile and they have older facilities and smaller facilities, is that the farms that had about 58 cows per farm average 416,000 pounds of milk per workers. Those that had 178 cows per farm averaged around 588,000 pounds of milk per worker.

So the net result of this is that even though the smaller farms made a greater percentage production increase and even absolute amount of increase in production over the 2 years of this study in 1985 and 1986, they still were not able to attain the level of production in productivity of labor and management that some of the larger operators or medium size operators were able to do.

However, one of the significant things I think perhaps for this committee is that those farms that had from 70 to 99 cows had an average of 566,000 pounds of milk which was not a whole lot less than those larger ones with about 170 to 180 cows. And this means that if these operators are supplied with appropriate credit, if they are supplied with proper incentives and such, they can be pretty effective in producing milk and I think this has a lot of meaning for consumers. We do not really have to go up to the big giant-size dairy farm in order to get the productive efficiency that is out there.

One of the things that we have found is that most of the increase in milk—you mentioned the surpluses at the beginning of the hearings—when it went up from 115 billion pounds up to 143 to 144 million pounds since 1975, a lot of this—as a matter of fact all of it—has come from increased production per cow. And one of the things that this program was to do was to reduce the numbers of cows. It has probably been about 70 percent effective in that. In other words, we started with about 11.1 million. We would have gone down 10.1 million. In actual fact, we are down to about 10.4 or 10.5 million, and this may go back up because of this increasing heifer replacement.

I would make one point about your comment about the heifer replacements, and that is we have found that over the years it takes more replacements now just to keep a productive herd at a high level of production. In other words, it used to be that it might take—a cow would stay in the herd 5 years, and then it was 4 years. We are moving fairly close to about the 3-year level at this point. So it does take more heifers being grown for replacements to keep the herd at that level.

One of the things that we were looking at in our educational analysis program, some of the data I have mentioned to you, was to see, not that we would be able to prevent some of the workers and managers from becoming displaced dairymen, because that has been true over a period of years. However, it can present and show the present and prospective dairyment which types and sizes of crop dairy systems would be most efficient in the future and this might help to avoid wasted labor, capital and other resources, pro-

ductive resources, that could be more effectively used in other sectors.

Basically I think some of the data we have here would be useful in our national dairy resource adjustments, particularly in States like Iowa or Minnesota or Wisconsin or New York and Pennsylvania. It would not be as appropriate, of course, in Arizona or Washington or California.

One thing in terms of the competitive advantage and toward the end of my written notes that you probably have before you is the fact that Maryland has been losing some competitive position along with other States in the Order No. 4 market. And most of that has been taken up by Pennsylvania and, as you know, Pennsylvania did not participate to the extent that Maryland did. They were about 3 percent, I think, into the program. We were about 7 percent, the data that has been given earlier.

So basically what it looks like is that our farms are larger here in Maryland than up in Pennsylvania on the average, but we have not been able to probably maintain as many of them because of the urban pressures coming up through Montgomery County and on up into Frederick and Carroll Counties and up in Baltimore and in Harford.

The actual data of some of that is given in there.

One of the problems that is here, however, in terms of the long-run viability in Maryland dairy farming is the fact that there has been a long-term shift from owned crop and pasture land to rented crop and pasture land. We have some survey data over the years that would indicate this. Back in the midfifties we probably owned about 70 percent or more of the land that was in the dairy farms in this area. Now it is down to about 30 percent, which means that farmers are renting a lot of additional land and it makes the whole dairy farm business more vulnerable. There is more risk to it than what there was earlier.

The evaluation declines. There is some data here that show you that in Maryland land and buildings per farm have declined from $389,000 in February of 1981 down to $269,000 in 1987. This has been more true probably on the Eastern Shore than it has right in this particular area although it has hit some selected areas that are not really ripe for development or not likely to be developed anytime soon, will stay more in the dairy business.

Basically then I would summarize by saying that the Milk Diversion Program and the Dairy Buy-Out Program of the U.S. Government have had more impact in Maryland than on neighboring States or neighboring areas in Pennsylvania, and I show some data there, for the counties just north of these Maryland counties, that show that they have been affected somewhat less in the amount of production that is coming from those counties.

Thank you.

[The prepared statement of Mr. Wysong appears at the conclusion of the hearing.]

Mr. STENHOLM. Mr. Barao.

STATEMENT OF SCOTT M. BARAO, LIVESTOCK EXTENSION SPECIALIST, UNIVERSITY OF MARYLAND

Mr. BARAO. Good morning. I would like to address concerns regarding the ability of Dairy Termination Program participants to engage in alternative agricultural production systems.

The Dairy Termination Program has resulted in a large number of long-term dairy producers seeking alternative agricultural production systems to continue the use of facilities and crops and provide supplemental income.

The constraints associated with a move to an alternative production system, such as beef cattle production, sheep production or swine production, are numerous. Costs associated with facility renovation and remodeling are great and prove restrictive to a profitable move to an alternative production system.

General management knowledge for livestock species other than dairy cattle is lacking in large part due to a past long-term involvement with dairy production exclusively. Crop selection, production practices and feed requirements are often inconsistent between livestock species. A simple transition from dairy production to an alternative livestock production system is unlikely if not impossible.

A failure of the Dairy Termination Program was to not ensure that adequate mechanisms for producer education relative to alternative agriculture production systems were in place. A consolidated effort encompassing facility use, crop production and general livestock management needs should have been a program requirement. As well, an intensive education effort on new product marketing would be essential.

There was a distinct failure to recognize system balances across species in terms of supply and demand trends, market trends and marketing capabilities. At present, the overall economic picture for beef and swine production is as positive as it has been in possibly the last 8 to 10 years. On the surface, a dairy producer considering swine or beef production would feel generally encouraged about the economic outlook. The reality of historical production cycles, depressed markets and oversupply may then escape observation.

A program with the scope and impact of the Dairy Termination Program should have anticipated the needs of the program participants to seek alternative livestock production systems and have been prepared to address this problem on a more broad based fashion. The efforts of traditional educational delivery channels such as Federal, State and local extension networks should have been facilitated nationally as part of the Dairy Termination Program.

Thank you.

Mr. STENHOLM. Dr. Cassel.

STATEMENT OF E. KIM CASSEL, EXTENSION DAIRY SPECIALIST, DEPARTMENT OF ANIMAL SCIENCES, UNIVERSITY OF MARYLAND

Ms. CASSEL. Good morning. Thank you, Mr. Chairman, for this opportunity.

In 1985, the Dairy Extension Team, University of Maryland, department of animal sciences, began an intensive 2-year program for

herd demonstration project to improve the profit-building efficiency of dairy operations throughout the State.

Our intent was to achieve this through an interdisciplinary effort incorporating 10 specialists across campus from 5 departments; 7 of our 40 participating herds consider participation in the Termination Program. From my experience working with these herds and from talking with other specialists in neighboring States, I would like to address areas of common concern regarding the Dairy Termination Program.

The debate is seemingly endless as to the type of dairy program or programs that will be most effective to ensure the viability of the diary industry now and in the future.

The dairy industry in Maryland and the Northeast is an important component of the agricultural economy, an economy which has been impacted short term and will be impacted in the long term by the Dairy Termination Program.

Whether or not the program has had, or will have, an impact on total milk production is a question debated both pro and con. We have seen a decrease in production with increasing indications now that as time goes on we will again have an increase in milk production nationwide. However, the impact of the program on production is not, nor should it be, the only issue of concern surrounding the program.

Three key concerns regarding the program include, one, the availability of educational material and sufficient time for potential participants to make an informed decision; two, a mechanism or program in place to provide education regarding alternative careers, both agricultural and nonagricultural, and/or job retraining; and three, an assessment of the short- and long-term impacts of the program participants who chose alternative agricultural production systems, such as beef, sheep, poultry, hay production or grain crops.

If one objective of the Termination Program was to reduce milk production long term, was the scope of the program and the information available from the program comprehensive enough to allow for informed decisions, sufficient affirmative decisions to effectively reduce the nation's milk supply? Was the bidding process always a carefully thought out process or was it merely a random numbers game? Could participation have been greater if in fact greater participation was necessary to sufficiently decrease production nationwide had this information been available? There is little doubt that there was as many opinions as to an acceptable bid as there were bids submitted nationwide.

Career alternatives, education or job retraining was seemingly a large failure of the program. Particularly for those not considering the program due to retirement or for those in serious financial trouble. For those new to the dairy business or those not ready for retirement, what education programs were in place for them to explore new options to help them make that transition from a known career to the unknown of another agricultural or nonagricultural career. As dairymen have said to me, "What can I do? All I know is farming." For these people, an unknown future or career change was devastatingly frightening.

For program participants choosing alternative agriculture production systems, what measures were in place to assess the scope and impact of their participation in the system? These switches are not easily made unless a program needs to be in place to facilitate the transfer and minimize the impact of new entries on the existing market.

The Dairy Termination Program has had its individual success stories as well as its failures, and perhaps a total nationwide impact yet unknown. However, what is known and quite obvious is that such a program should be conceived and implemented again, the traditional educational delivery channels of the Cooperative Extension Service should be made an integral part of the program to aid in the effective implementation of the program.

Thank you.

Mr. STENHOLM. Beverly.

Mrs. BYRON. Thank you, Mr. Chairman.

Let me say first of all that the University of Maryland is well known in national circles for their department of agriculture, and I am delighted that many of their individuals are here today to give us their expertise.

We all listen to our constituents and I have a constituency problem that maybe you all can address. I had a gentleman that participated in the Buy-Out Program. The program has been so successful in certain areas of the country that buyers are falling short in orders that they have committed themselves to. Therefore, they are requesting dairy farmers in their area to increase milk production.

In Maryland, for example, there is a shortage. Elsewhere there may not be. However, it is less costly for buyers to offer incentives for increased production from local farmers than to get the milk from other parts of the country where there may be a surplus. This has sent confusing signals to farmers. On the one hand, they would like to do their part in keeping the production low because they have watched their neighbors in the Buy-Out Program. On the other hand, the incentives are very tempting. I have one farmer that watched his neighbor join the Buy-Out Program. He is now being contacted by his source of purchase. He has advised me that he didn't apply for the incentives and he didn't increase his production. What also concerns him about the incentive proposal that was brought to him is how he is going to get his herd to increase production for a 4-month period and then go and tell the herd that, "Excuse me. You have done your part. For the next 8 months, we are going to turn you off."

I have a letter in front of me from a Uniontown, Pennsylvania, producer announcing that there will be a 3-year program beginning with the month of August, September, October, November of 1987 and continuing for the same 4 months in 1988 and 1989. In the first year of production, dairy farmers will be paid a premium of 50 cents for milk produced in each of the 4 months over the amount produced in the same month the prior year.

How do we answer these confusing signals? We have a Herd Buy-Out Program that many people participated in. We watched people because of the economy have to be much more accurate in their production. Because of the changes we have made, the production

is up. They have cut back on the number of their herds. And then for a 4-month period, we want to wrap up a production and then turn it off for 8 months. What kind of signal are we sending? I will ask any of the five of you in front of me, because you are the experts, because you are the ones who are teaching the new young people that we desperately need in agriculture, who we desperately need to maintain the herds that we have. What are you telling the kids that are coming before you, the ones that are coming into the academic programs, and in the graduate programs, the ones that are going to be out among the community as the leaders? What kind of messages are we sending?

I've got a lot of whisperings. I guess I hit a nerve there.

Ms. CASSEL. First I think one of the important things is that it is sending very mixed signals, particularly to producers in our State where they see that we have a deficit yet they know that we have overproduction in other areas of the country, even in our neighboring State of Pennsylvania, where we have seen a big increase in milk production, even 9 percent this last month.

What we tried to stress, I know throughout the Dairy Extension Program, is not to add cows. To make more milk with fewer cows. You can make less milk total possibly, but you can also increase your profitability and efficiency of production which is going to help you in the long term.

Mrs. BYRON. But you are only allowed to do that for 4 months.

Ms. CASSEL. Then you have to maximize your resources in those 4 months. And you have to have your management system. You could do that with your management system to do that. To have all your fresh cows in that part of the time, you are going to get half your milk production in the first 4 or 5 months that a cow milks anyway, so if you can maximize your resources to get the milk at that time, but that takes very specific management and it would have to be across the board for all co-ops and all producers to do that.

Mr. WYSONG. Are you referring to the Dairymen's Incentive Program? When you mentioned the 4 months?

Mrs. BYRON. Yes.

Mr. WYSONG. Basically that is the thing that Dr. Cassel just indicated and said you can influence some of it by the time of the year that the heifers freshes. Traditionally, of course, we brought in cows freshened in the spring and you had a surplus in the spring and summer. In this market as far back as after—well, after World War II, we got so we even had a fall and winter surplus. Our extension program was so effective. In other words, if you show farmers that it is to their advantage to do so, they will in fact produce much more in the fall and in the winter when it is needed. If it is truly needed.

I think you brought up, however, there are two things in there. One is that some of the co-ops are short, particularly the dairymen plants in the South. And that problem in the long run is probably going to be resolved by bringing some milk in from other areas. The Southeast is a high-cost milk producing area relative, let us say, to Maryland or Pennsylvania. It is considerably more expensive to try to produce milk down in Florida or down in Louisiana or Southern Georgia.

Mrs. BYRON. I do not mind giving you the specifics. My constituent lives in McHenry which is in Garrett County and he deals through a Uniontown, Pennsylvania, milk and ice cream producer. And they are the ones that are offering an incentive program—but he has watched two of his neighbors that joined the Herd Buy-Out Program, which he did not want to do.

Mr. WYSONG. Right, there are a lot of people who did not want to, because you are talking about essentially 25- to 40-year career period for some people. Particularly younger people who have gotten into dairying and they are trying to pay for a farm. And that is one of the reasons we have—I pointed out that they were 70 percent effective. In other words, we have had a 70 percent drop in number of cows in this period even though the total output has not gone down because people have increased—those that were not in the program have increased production per cow and they are also ready to bring in a lot of heifers into production at this time.

So I do think in the case of where you have a seasonal commodity, such as ice cream and such, you probably are going to have to bring that in from other areas where there is considerable amount of surplus, so-called surplus milk.

Mrs. BYRON. But it is more expensive to bring it in from certain areas as you cited.

Mr. WYSONG. Right, right. This is true. There is a cost of bringing it in, but then when you have a government program, there is no way where you can stop people from taking advantage of the economic benefits of getting out if they are a high-cost producer. I think some of these points that were brought out over here in terms of in Maryland the dairy buy-out is that some of the people were in tremendous financial trouble and it bailed them out. Some of the people were ready to retire. They went on and retired. So there is no way you can make that program just to hit the people maybe who are very productive and are likely to be producing for a number of years in the future.

I do not know whether this answers your question, but as far as being able just to produce for 5 months or 4 months, from a biological standpoint, what we are trying to do is keep the production of the cow at a fairly high level throughout the whole 10 months or so that she is producing. And that means that the way you do that is to bring heifers in and new cows in, fresh them at the time when it is needed.

Mrs. BYRON. I did not mean to take up that much time with that issue but I felt that it needed to be addressed.

Mr. STENHOLM. Mr. Harris.

Mr. HARRIS. I do not have any questions, Mr. Chairman.

Mr. STENHOLM. Mr. Nagle.

Mr. NAGLE. No questions.

Mr. STENHOLM. You do not suppose that if we increase the daylight savings time by another hour that that might help us during that period of time.

Mr. WYSONG. I do not know if that would do anything or not. [Laughter.]

If you turn the lights on in the barn it might. At least support the chickens. Have a little bit of music there of the kind that—at

lot of farmers do that. They have a little music. Keep the noise factor down and have a constant kind of a noise, you might call it.

Mr. STENHOLM. Your question is a very good one, Beverly, concerning the regional distribution of milk production. It prompts the question that I think this committee is going to have to deal with prior to the 1990 farm bill.

Dr. Barao, I could not agree more with your assessment of some of the weaknesses of the Dairy Termination Program. Obviously in hindsight, if we had had the time as well as the wisdom to have done things a little bit differently, we would have all been better off. There is no question about that. But you have to remember that it took us about 6 months to write the farm bill. We passed it in December after a nonstop marathon of about 7 days in conference. The Dairy Program and the Dairy Termination Program represent a compromise.

Now, as we look head, hopefully, the National Commission on Dairy Policy will give us some suggestions as to where we go in the future.

Do you have any observations regarding where we might want to go in the future in terms of Federal dairy policy?

Mr. BROWN. I am sure you are aware there is quite a bit of interest in the Canadian program of mandatory controls. And that is one that probably needs to be looked at and studied a little bit. To see what implications that would have if that was put into effect.

And then, of course, nothing has been mentioned so far from our friends from animal science here in terms of the increased production potential because of biogenic engineering and the growth hormone and stuff that might have increased production down the road. Se the problem is not going to go away.

Mr. STENHOLM. I would much rather have a problem of too much to eat rather than too little. And that is the challenge that we have before us.

Dr. Wysong, you mentioned that some of your research indicates that it takes more heifers today.

Mr. WYSONG. That is right.

Mr. STENHOLM. Traditionally we have looked at 35 to 36 percent heifers to cows. Do you have a number which would represent a more traditional relationship?

Mr. WYSONG. Well, it definitely has moved up. Like you indicate. You would never know for sure. Because there are two things you can do. One, you can bring more heifers in. The other, you can keep the older cows longer if you are trying to increase production. And we have found both of those things took place, so the people who did not participate in the buy-out, so the USDA statistics indicate around 42 to 43 percent in there. Heifers relative to the milk cow herd.

Mr. STENHOLM. Are you suggesting this should be considered in a traditional relationship? By moving from 36 to 44, we should expect an explosion in the number of cows.

Mr. WYSONG. And you may not get as much exposure as you would have expected 10 years ago or maybe even 5 years ago, because these high-producing herds, at least what we found was that they seemed to be culling at fairly high rates. A lot of times it may

be a mastitus problem, it may be a number of different problems that can come up in there, but they definitely cull it at a high rate.

Mr. STENHOLM. One last question that I would ask from a Maryland perspective. As you know, if the Secretary of Agriculture estimates that CCC purchases for 1988 are going to be in excess of 5 billion pounds, he will reduce the support price by 50 cents as of January 1. What will be the effect of this on dairy producers in 1988? Will your producers bear the full brunt of the 50-cent cut?

Mr. WYSONG. You are not saying that some States will have it and some not. It is a national program, right?

Mr. STENHOLM. It is a national program but what will be the effect on dairymen in Maryland?

Mr. WYSONG. Let me mention this. Before 1970, there was no Order No. 4 that included the Philadelphia, Baltimore, and Washington markets. Prior to that time, Maryland shipped much of the milk into either the Baltimore order or the Washington order. Since that time, since 1970, we have had these three orders consolidated into what is called Order No. 4. At that time, Maryland was in a deficit-producing area and we are still in a deficit. We would need about 2.6 billion pounds of milk produced in Maryland to handle all our needs. We only produce about 1.6. So we are already in a deficit position and have been for a number of years.

I would think that the drop in price would probably move some of the dairymen out and let the land go for development purposes at a somewhat faster rate. This has already happened on the Eastern Shore and the Upper Eastern Shore, about all that there is of dairy left now is up in the top three or four counties up in there. I think I bought out in paper, much of the decline in real estate values has taken place up in the Dolmarva part of it, over on the Eastern Shore because of the emphasis on corn and soybeans which makes us more nearly like what has happened out in Iowa or some of the other Western States, Midwestern States. So I think what would happen is that, now, the National Milk Producers Federation is trying to block that 50-cent drop and try to put it into promotion. Whether that will take place or not and how your committee recommends it, I do not know. That will be partly, I guess, influenced by what the—like you say—the Secretary of Agriculture decides. Right now, it looks like it will go down to 50 cents, my understanding.

Mr. STENHOLM. Do you anticipate that the Maryland dairy farmer will receive a 50-cent price cut in his milk check on January 1?

Mr. WYSONG. No. It would not be quite that much because——

Mr. STENHOLM. Somewhere in between?

Mr. WYSONG. Yes. It would be in between.

Mr. STENHOLM. What is your best estimate of what would happen?

Mr. WYSONG. Probably about 35 cents, like that. The net change would be that much. It has been up a little bit. Prices have been a little stronger this year than they were in 1986. Mainly because the Minnesota and Wisconsin manufacturing milk prices have been so much stronger. And however, at this point, it does not have that same strength as it had last fall, in the fall of 1986. So I would guess it would probably be down about 35, 40 cents. About 50 per-

cent. A little bit less than 50 percent of our milk moves into Class I use, in the Order No. 4 market. And about 45 to 46 percent of it moves into what is called manufacturing uses. Probably the term surplus is not correct anymore. We used to use the term surplus to say how much extra milk we needed just to supply the Class I uses. But really we sell a lot of milk now in the northeast I am talking about as manufactured. For cheese and ice cream and all the other items.

Mr. STENHOLM. Any other questions?

Mrs. BYRON. I had one question that has come to mind, and that is, has the Buy-Out Program affected the other sectors of agriculture in Maryland? Have you seen any change or increase in other areas of agriculture because of the Buy-Out Program, or a decrease? Mr. Brown.

Mr. BROWN. I am not sure I can answer that completely but obviously the land is still there and so it is going to be put into crops and then sold probably as corn or soybeans where it would have been gone into cattle with silage before. So that is going to increase. And I think that Scott mentioned something about some movement into beef and hogs. And those are fairly minor in Maryland and so——

Mrs. BYRON. So that would be a new area.

Mr. BROWN. I think it is probably too early to tell yet for sure, but I suspect most of it is still being crop farmed rather than other livestock.

Mrs. BYRON. OK. It is too bad we could not have afforded two mikes. But Gramm-Rudman gets us every time. [Laughter.]

Mr. BARAO. I think without a doubt there has been more inquiries, more interest in alternative systems, beef, sheep, hogs, whatever. Where that goes, it is going to take, as Dr. Brown said, a little bit longer to assess, and I think part of the reason is that I question the fact that a number of the participants in the DT Program are considering getting back in dairy production after their 5-year period, and do not want to do the facilities remodeling, et cetera, that would be required to get into another production system, so there is a lot of talking, a lot of questions being asked, but I do not think a lot of decisions being made.

Mrs. BYRON. So they are really just in a holding pattern.

Mr. BARAO. Yes.

Mrs. BYRON. Unless they are close to a metropolitan area then they come into a development pattern?

Mr. BARAO. Definitely.

Mrs. BYRON. You see, that is what concerns me greatly. We have got a tremendous pressure on agriculture in this State for development. And that can be seen in the first comments that my three colleagues made today regarding the traffic pattern coming out of the metropolitan area. And as I look through my district on a regular basis, what used to be gorgeous, productive farmland is now tract housing. And what really concerns me about this type of a program, will those individuals that have gone into the Dairy Buy-Out Program for a 5-year period be able to hold their land to put back into production? Land is a commodity that we are not making much more of.

Mr. STENHOLM. We thank you each very much for your testimony. We look forward to reading in depth your study regarding the DHIA participant in the DTP. I found that very interesting.

Thank you all very much.

I call panel three. Mr. Martz, Mr. Brauning, Dr. Hand, Mr. Shank, Mr. Brauer, and Mr. Burall.

If you would, please identify yourself as you begin your testimony.

Mr. Martz.

STATEMENT OF WALTER A. MARTZ, ASSISTANT SECRETARY/TREASURER, NATIONAL MILK PRODUCERS FEDERATION

Mr. MARTZ. Mr. Chairman and members of the subcommittee, I am Walter Martz, a dairy farmer from Frederick, Maryland. I am assistant secretary/treasurer of the National Milk Producers Federation and president of Maryland and Virginia Milk Producers Cooperation Association. I am also a member of the National Dairy Promotion and Research Board.

I appreciate this opportunity to be here before the subcommittee and I would like to commend you, Congresswoman Byron, for your efforts in bringing the subcommittee to Maryland so that producers here can present their views on current farm products to the Congress. We have been pleased with your responsiveness to our concerns to date and we look forward to working with you on issues before the U.S. House of Representatives in the future.

My intention here today is to focus on how the 1985 farm bill has affected the dairy industry nationally and what the outlook is for the near term. While I do not want to dwell on past history, it is gratifying to be able to commend the subcommittee for its role in establishing what we believe are the positive dairy provisions of the Food Security Act of 1985. Those of you who served in the 99th Congress will recall that we were initially concerned that a Dairy Termination Program or a whole herd buy-out as it was referred to at the time by and of itself would not prove adequate to correct the supply/demand imbalance in the dairy industry. An imbalance which we sought to resolve.

As we look at the nation's agricultural situation today we are pleased with the tremendous accomplishment evident in the dairy program. No commodity program in the entire farm bill can show the progress in terms of both surplus reduction and government cost savings that we have seen in the dairy program. It is an enviable record and one which deserves greater attention. Both as a tribute to Congress and to the hard work and sacrifice of the nation's dairy farmers in making the program a success.

Since the inception of the DTP, milk production has dropped below year earlier levels every month. During the year 1987, milk production dropped 2.5 percent below fiscal year 1986. Milk cow numbers are now 6 percent below a year earlier and they are at the lowest levels on record.

With milk production declining and the dairy farmer funded milk promotion efforts helping to boast consumption, dairy program purchases by the CCC, on a milk equivalent basis, have dropped dramatically. After reaching 13.2 billion pounds or about 9

percent of total production in calendar year 1985, government purchases dropped to 10.6 billion pounds in calendar year 1986, during the initial stages of the DTP. That reflects a 19 percent drop in purchases in one year.

Now that the DTP has run its course, the results are even more dramatic. During fiscal year 1987, USDA purchased just 5.4 billion pounds. More than a 50 percent reduction from the 12.3 pounds purchased during 1986. These dramatic reductions in dairy program purchases translate into substantial reductions in the cost of the Dairy Price Support Program. Fiscal year 1986 dairy programs costs totaled $2.4 billion. For fiscal year 1987, total program costs will be about $1.2 billion making the dairy programs one of the few commodity programs to fall within its budget baseline. We expect the program savings to continue into the next fiscal year as well, with projected costs below the 1987 level.

Beyond the tremendous gains in the dairy situation that have been made with the assistance of the DTP, the program has additionally provided substantial aid to the nation's cattle producers, largely through the foresight of the subcommittee in providing for the purchase of 400 million pounds of red meat by the government to offset additional meat coming on to the market as a result of the DTP.

While we are pleased with the positive results of the Dairy Termination Program, there is nonetheless great concern among many dairy farmers over the possibility of further erosion in milk support prices as a result of the CCC trigger levels established in the 1985 farm bill. Despite the excellent results to date, we are concerned there may be a reduction in the support price of 50 cents per hundredweight on January 1, 1988, which would lower the support price to $10.60 if USDA projects CCC purchases in 1988 in excess of 5 billion pounds milk equivalent.

Our projections indicate that surplus removals will be near the 5 billion pound mark for 1988. But unfortunately there is no objection mechanism to deal with the trigger. If USDA reduces the support price and removals turn out to be less than 5 billion pounds for the calendar year, the Department will simply claim that removals were lower because of the price cut.

As I stated earlier, CCC purchases over the last 2 years have been cut in half. That is a dramatic reduction in both real and percentage terms, reducing CCC removals to their lowest levels in nearly a decade. But still, dairy farmers face the very serious prospect of a reduction in milk prices even though it is clear that USDA will not have sufficient stocks of dairy products in CCC inventories to meet its various congressional mandates for domestic and foreign dairy product obligations.

Recently USDA rejected an opportunity to sell dairy stocks to India, claiming that no product was available. At present, many State food distribution coordinators are voicing concern that they will not receive enough dairy products from USDA during fiscal year 1988 to meet their local needs under the Temporary Emergency Food Assistance Program. Frankly, it is difficult to comprehend the possibility of a further reduction in farm milk prices at the same time USDA is unable to provide dairy products for its programs.

We do not believe further price cuts are needed at the present time. Because of our concern, we are exploring possible ways to provide even greater assurance that CCC removals will be below 5 billion pounds in 1988, thereby eliminating the possibility of a price cut on January 1, 1988.

One proposal which our members support is increasing national milk promotion expenditures to commericially market even more milk to get us under the 5 billion pound trigger and eliminate the authority for the potential price cut.

The Senate Agriculture Committee's reconciliation package contains language along these lines which would be an improvement for the current situation.

In summary, Mr. Chairman, and members of the subcommittee, we believe that the Dairy Termination Program worked well in reducing surplus milk production and providing some financial assistance to those dairy farmers who contracted to eliminate their production under the program. We are pleased that, to date, the dairy program has worked perhaps better than any other commodity program in the 1985 farm bill. The dramatic budgetary savings we have achieved in a very short period have contributed greatly to reducing the deficit, especially at a time of rising farm program costs in other commodities.

But we do harbor a great deal of trepidation over the possibility of what we consider unwarranted price reductions at a time when milk production and consumption are in near balance and the Federal Government is expected to be short of dairy products for its various program uses.

We hope we can work with this subcommittee in the coming days to address these issues in a manner of fairness and equity to the nation's dairy farmers.

Thank you very much for this opportunity to present my views here today. I would be happy to respond to any questions.

[The prepared statement of Mr. Martz appears at the conclusion of the hearing.]

Mr. STENHOLM. Mr. Brauning.

STATEMENT OF GARY R. BRAUNING, REPRESENTING MIDDLE ATLANTIC DIVISION, DAIRYMEN, INC.

Mr. BRAUNING. Mr. Chairman, Congressman Stenholm, Congresswoman Byron, Congressman Nagle and Congressman Harris, and other distinguished committee members. Thanks for allowing me to speak on behalf of our 200-plus dairy farm families operating in Carroll County today, and Dairymen, Incorporated.

My approach to this thing is a little different because I am not an expert on much of anything and I do not belong to too many influencial committees so this attempt to assess Carroll County dairy situation reflects only upon what this one 58-year-old native Carroll County family dairy farm operator believes and understands.

Now, as this hearing seems mainly to concern assessing the results of the whole herd dairy buy-out in the Middle Atlantic region, perhaps a short overview of dairy farming in Central Maryland's Carroll County would be helpful.

Traditionally, Carroll County dairy farming has been satisfying, socially acceptable and moderately financially rewarding to most of our families. But we are presently concerned that the next two younger generations of dairy farm families presently involved may not be as fortunate as we have been.

As you know, some farmers, dairy farmers especially, wear out. Some have been sold out and some sell out. And maybe facetiously, but as been intimated here today, the whole herd buy-out was a bail out for many. Yet the whole herd buy-out has been successful in lowering milk production on a national basis. The whole herd buy-out has financially rewarded those Carroll County whole herd buy-out participants.

But as Mrs. Byron commented a while ago, that is not the whole story. The nitty-gritty is that Carroll County's total population continues to grow quite rapidly thus the need for food increases and available arable farmland decreases. And our total dairy farm production holds nearly steady as various efforts by government, groups of dairy farmers and/or research and development interests make production per acre and per cow increases practical or at least possible.

With this admittedly skimpy overview of present-day Carroll County dairy farming, we will attempt to mold a consensus of whether Carroll County will maintain a viable dairy industry.

Please consider the following few points of information when as lawmakers or policymenders, Carroll County or Mid-Atantic dairy farming is involved.

One, Dairy farming avails itself to persons of both sexes and almost any age to productively participate.

Two, a reasonably well-managed dairy farm, whether it is large or small, with a 5 or 6-year alfalfa/corn/wheat crop rotation; severe slopes, hills, swamps and hard-to drain or cultivate lands in permanent pasture; the proper number of animal units and intelligent usage of all waste materials, can provide veal, dairy beef, and the full gamut of dairy products for a growing population.

At the same time, the dairy farm keeps to the barest minimum possible air pollution, chemical contamination of both soil and ground water reserves, while it simultaneously prevents, here in Carroll County, excessive sediment run off into the Chesapeake Bay or Potomac River Basin.

Three, here in our county there exits a base of young energetic, enthusiastic, well-indoctrinated, and superiorly trained men and women working toward eventually assuming control and operation of our remaining dairy farms.

Ladies and gentlemen, we respectively ask that as our elected representatives and national leaders, you will seriously consider supporting our efforts to keep Carroll County and Mid-Atlantic dairy farming economically feasible and thus enable us to continue contributing to our small but solid link in America's world renown food chain.

Dairy farmers and the entire dairy industry owes the U.S. Congress a deeply felt and sincere thanks for many legislative achievements aimed at improving dairy farming opportunities, financial assistance, and more recently very effective options to actively participate in self-help endeavors.

Today there are several areas of legislative concern wherein we seek your understanding and support. Such as, meat pizza labeling. If we had the proper labeling on pizza alone, we would not have to take the anticipated 50-cent per one hundredweight reduction in support price on January the 1st. I know there are some assumptions there but there are assumptions everywhere.

Milk chocolate imports. If there was a quota on the amount of milk chocolate that could be imported, as long as government continues to purchase excess dairy products, mostly in the Far West, here again there would be no reasen for a 50-cent per hundredweight reduction in support price on January 1.

To be honest, we cannot afford to produce milk at lower prices. It has already been proven that we in the eastern part of our country cannot produce milk at cheaper prices. We must look at legislation on a regional basis to be equitable to dairy farmers. It is a must to have products produced as near the marketplace as it is possible in order to assure the consumer fresh, wholesome products at a fair price.

Clearly, the future survival of Carroll and other Mid-Atlantic county dairy farming will aptly include the growing importance of housing, health and environmental pressures and concerns. We dairy farmers of today are caught between a rock and a hard place.

Milk prices for 1987 are slightly higher than for 1986. Dairy replacement animals and cull cows are moderately higher while veal is about constant. And that is about it for our income.

But our wives keep telling our kids, "Wait until the 15th and then we'll be able to buy that whatever it is that you need." But then comes the 15th, and we farmers, we are going to squirm and even sweat more than a little bit as we strive to stretch our income to cover higher taxes, higher fuel, et cetera, et cetera.

So you see, farming today, especially dairy farming, is involved with constantly changing and challenging reality of a fast-moving America. But with continued efforts of cooperation between governmental representatives and we as citizens, we expect to cope.

Thank you for listening to this testimony and thank you for the time and energies expended as our elected representatives.

Mr. STENHOLM. Dr. Hand.

STATEMENT OF PAUL E. HAND, SECRETARY AND GENERAL MANAGER, ATLANTIC DAIRY COOPERATIVE

Mr. HAND. Good morning. Chairman Stenholm and other distinguished members of the House Committee on Dairy, Poultry, and Livestock. On behalf of Atlantic Cooperative I would like to thank you for the opportunity to testify today. I would also like to thank Representative Byron for her efforts in arranging this hearing.

My name is Paul E. Hand. I am the secretary and general manager of Atlantic Dairy Cooperative. Atlantic markets the milk of over 4,100 dairy farm families producing 3.5 billion pounds of milk annually. Atlantic is the largest dairy cooperative headquartered in the Northeast and supplies approximately 50 percent of the milk used in the Middle Atlantic market.

Atlantic, as a member of the National Milk Producers Federation, supported passage of the 1985 farm bill. Since its passage, the

dairy provisions of the 1985 farm bill have assisted greatly in moving milk supplies and sales into market balance. Largely as a result of the Dairy Termination Program and increased commercial sales of milk and dairy products, national milk supplies and sales are in balance currently and are expected to be in reasonably good balance in 1988. Generally, milk production and sales trends in the Middle Atlantic market. which includes the metropolitan areas of Baltimore, Washington, D.C. and Philadelphia, are following national trends. For the first 9 months of 1987, Middle Atlantic milk supplies were 2 percent lower than year earlier levels. Fluid sales in the market increased approximately 1 percent in the same period. Middle Atlantic manufacturing sales also have been strong reflecting national trends.

Given this environment of decreased milk supplies and increased sales, surplus Middle Atlantic milk production is nonexistent, unlike Midwest and far West markets.

Atlantic, based on its production and sales estimates for northeast markets, projects a continuation of current tight market conditions through 1988. Middle Atlantic milk producers are continuing to exist from the dairy business. Combined impact of past producer price reductions, urbanization, and uncertainty regarding future price levels has been to reduce Middle Atlantic producer numbers by 188 farms or over 3 percent for year earlier levels.

Current off-farm employment and income opportunities are also attractive for Middle Atlantic producers. Current and projected price levels are not sufficient to arrest this continuing decline in producer numbers. As was noted earlier, this decline in producer numbers has only been partially offset by an increase in production per remaining producer. Further producer price reductions such as those projected for 1988 will only aggravate an already very tight supply and demand situation in Atlantic markets.

Nationally, favorable production in sales trends have rendered the USDA estimate of 1988 Commodity Credit Corporation purchases of surplus dairy products a close call with respect to the 5 billion pound trigger level contained in the 1985 farm bill. There is now more general agreement among dairy economists that the current $11.10 per hundredweight U.S. milk support price will be reduced further on January 1 to balance longer run dairy supplies and sales.

For the foregoing reasons, Atlantic Dairy Cooperative urgently requests that this subcommittee recommend to the Secretary of Agriculture that he resolve these economic certainties in favor of the milk producer and not reduce the support price by an additional 50 cents per hundredweight on January 1, 1988.

Since December 1, 1983, the effective U.S. support price for milk has been reduced by $2 per hundredweight or by 15 percent. Since 1983, milk producers have also financed a substantial part of the cost of two major self-help programs designed to reduce milk supplies. In addition, all milk producers are paying 15 cents per hundredweight to finance national, regional and local dairy programs. The combined result of these factors has been to dramatically increase dairy sales and to reduce surplus milk production. Accordingly, large reduction in CCC purchases, surplus purchases, and associated taxpayer expenses have been achieved.

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In closing, I would like to say that the Maryland State Grange believes that the Dairy Termination Program just ended was of limited success in reducing milk production and herd numbers. We strongly believe that further reductions in the milk price support will only further cripple the dairy industry on the East Coast. We firmly believe that some additional provisions or another supply management program needs to be adopted in advance of any national increase in milk production which incorporates regional considerations based on production costs and market availability.

Thank you very much for your time.

STATEMENT OF JESSE I. BURALL, DAIRY FARMER, FREDERICK COUNTY, MD

Mr. BURALL. Mr. Chairman, committee Members Harris, Nagle and our own Beverly Byron, I am speaking on behalf of myself and not any organization that I am associated with. Though some of the views that I may reflect upon may be some of the views of some of the organization I am involved with.

I am Jesse Burall, a farmer from Frederick County. My wife, Catherine, my four sons and a daughter have lived in Frederick County all our lives. One of our sons operates a farm in Frederick County which he rents and one of our sons is engaged actively in farming with me.

You can see in my prepared statement the list of involvements in the various organizations that I am associated with.

Our dairy operation consists of 250 acres owned and 250 acres leased. The herd of cattle consists of 125 milking cows and approximately 85 head of heifers in varying ages, which we raise for replacements.

I appreciate the opportunity to testify before this committee about my views on dairy farming, advertising, promotion, and educational efforts and the effects of the Whole Herd Buy-Out Program.

With congressional passage of the 1983 Dairy and Tobacco Adjustment Act, a new era in milk advertising, promotion, and education was initiated. This legislation has had a major positive impact on the entire dairy industry as it provided funding for an effective sales and consumption building program for milk and milk products. The legislation was needed to unify the American dairy industry and its many promotion efforts. Under the provisions of the legislation, all dairy farmers across the United States are now investing in an effort that will benefit everyone. One strength of the program is that we are all investing the same 15 cents per hundredweight. The split of the assessment, with 10 cents going to qualified State or regional promotion organizations, and 5 cents going to the National Promotion and Research Board, has been an effective means of serving the local market needs as well as the national priorities of the U.S. dairy industry.

The true measure of the success of the legislation and our promotion efforts can be seen in sales and consumption. Milk and milk product consumption from 1983 to 1986 increased approximately 10 percent, the largest and longest sustained consumption increase ever. Last year consumption of dairy products on a milk-equivalent

basis was almost 600 pounds per capita, the highest since 1966. During the first quarter of 1987, commercial sales of milk and dairy products continued at a strong pace, with use up over 3.2 percent from the sales period last year.

In our area of the country, Class I sales have shown a significant increase since our new era of milk promotion began. In 1984, sales were up 1.5 percent, 1.3 percent in 1985, and another 2 percent in 1986. During the first quarter of 1987, we saw a gain of 1.5 percent in our Class I sales. This represents an additional 24,551,949 pounds of sales over the same period the previous year.

We have been fortunate to have consistently achieved greater sales gains than any other region of our country. We believe this is due, in part, to the population shift to our region. However, this only accounts for a portion of our sales growth. We sincerely believe that the sales gains experienced by the dairy industry nationally and regionally are a direct result of advertising, promotion, and education programs made possible through the 1983 Dairy and Tobacco Act.

There is one shortcoming in the Federal legislation. The original intent was to provide American dairy farmers with an effective program that would closely coordinate the National Dairy Board efforts with those of the existing national State and regional promotion organizations, thereby spending dairy farmer dollars more effectively.

The industry has worked long and hard to consolidate existing programs and organizations with the new National Dairy Board. However, this has not been achieved to date. I and other dairy farmers across the United States have been very concerned with the recent new direction taken by members of the National Dairy Board toward separate and duplicate programming.

Our concern has been formally expressed through the National Milk Producers Federation, which has submitted amendments to the Dairy Promotion Order to the Secretary of Agriculture, Richard E. Lyng. The amendments require creation of a single national promotion entity with one purpose, one staff, and one board of directors. I strongly support these amendments and would ask that you direct your efforts toward their adoption by the U.S Department of Agriculture.

Like any new endeavor, it takes time to consolidate and coordinate efforts. I am very encouraged by the progress made to date in our milk and milk product promotion efforts. We have made significant strides in gaining consumer confidence in our industry and products. The results have been increased sales and consumption, which benefits everyone from the dairy farmer to the consumer. Consolidation of our national promotion efforts would further enhance our investment in milk promotion and solidify our sales efforts.

Let me make a few brief comments about the Whole Herd Buy-Out Program and the Dairy Termination Program. Since the inception of the program, milk production has dropped for 12 consecutive months through June 1987 from the previous year. With production dropping and sales increasing, dairy product purchases through the Commodity Credit Corporation, on a milk equivalent basis, has dropped dramatically. It is projected that dairy program

costs will drop from $2.3 billion in Federal fiscal year 1986 to $1.1 billion in fiscal year 1987. This makes the dairy program one of the few commodity programs to fall within its budget baseline.

The Dairy Termination Program was an obvious success as it helped bring about a closer balance between production and demand. I would also note that it was funded by dairy farmers through a deduction in their pay price. While the program has achieved its goals, it also was too successful in some areas of the country. In the Southeast, the program has led to a severe shortage of raw milk to meet the consumer needs this fall. Due to this situation, I would strongly recommend that any need for future endeavors of this nature be more closely targeted to the local and regional production and consumption needs of the country to ensure that the true intent of the program is met.

Frederick County is the largest dairy county in the State both in production and in cow numbers. Thirty-one Frederick County milk producers were accepted in the Dairy Termination Program. I believe we have lost more producers to other causes such as labor problems, health reasons, other employment opportunities and economic reasons than were lost to the whole herd buy-out. I mention this because I believe Frederick County to be somewhat typical of many parts of the Eastern milk market where we generally oppose reductions in the support price and assessments to pay for government programs.

Concluding observations and recommendations.

One of the key factors to controlling milk production in this country is to control cow numbers. The Diversion Program and Whole Herd Buy-Out Program accomplished this. What next? With production increases appearing in some States and regions of the country where they have apparently not gotten the message or show total disregard to the problem of over production at the expense of all dairy farmers, I would oppose any further assessment for promotion until a unified and consolidated national promotion program is accomplished. I also oppose any assessments for any future government program.

Regional differences must be recognized in any future legislation. Also, marketwide service payments must be recognized and implemented. Much discussion about base or quota systems has taken place. Any quota or base systems need serious study before any implementation or legislation because regional differences must be addressed. Maybe quotas need to be imposed on States and regions where purchases by the Federal Government continue to be excessive or where production seems to be increasing.

Another consideration, a cap on purchases by the Federal Government needs to be considered with excess products above this cap being sold on the open market.

The absence of any viable alternatives in any presently proposed legislation and with certain factors available in the marketplace in the Eastern markets, such as service charges or overorder pricing, leads me to make this recommendation that there be no further assessments of any kind and that the present legislation be given an opportunity to work.

I again thank you for this opportunity to testify and commend you and your colleagues for your support of our industry and American agriculture across our nation.

Maryland dairy industry thanks you.

[The prepared statement of Mr. Burall appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank each of you.

Mrs. Byron.

Mrs. BYRON. At this time I have just one thing that concerns me. Mr. Brauning, I think it was, in his testimony talked about Carroll County and the young men and women working toward eventually assuming control and operations of the remaining dairy farms in the area.

With the factors weighing on the industry to make the Buy-Out Program work, for example, the cost of feed, short term deficiencies, pressure to increase production, the young people that we have coming in that you talked about, are they going to be able to handle farming as we know it today? Or are we going to end up seeing really the large tract farms? Are we going to be losing what has been our backbone in Maryland agriculture, and that is, the family farm?

Jesse talked about farming with his son. He has another son who farms. Walter, I know you farm with your son. Most of you—Alan has been in farming because of his family. Are we going to lose that type of a farmer because of some of the programs that we have put in place?

Mr. BRAUNING. I do not think we will be losing them because of the programs that were put in place. Things are going that way. I mean I have a son who works at home with me. Or I work with him really. And he does most of the work. And then——

Ms. BYRON. That is why you are here today.

Mr. BRAUNING. That is exactly right. That is exactly right. And another boy goes to the University of Maryland.

Mr. NAGLE. Would you mind coming over to my house and talking to my son. [Laughter.]

Mr. BRAUNING. There are a couple of people here in this audience who farm with their sons, and that is what I meant when I said we had a number of well-trained and talented and dedicated young people ready to take over the farms. And if we old men can hold title to the land long enough for the young boys to see their way clear of taking over, they are going to take over all right. But then they will probably be renting a lot of land along with the family tracts.

Mrs. BYRON. I am looking down here and I can see some families here that have three generations of farmers.

Mr. BRAUNING. Yes.

Mrs. BYRON. What worries me though is that I was talking to a farmer the other day in Virginia. He has been renting 51 farms. I must admit it was down in the Middleburg area and the rent is pretty high down there. He has chosen to eliminate, to move, to pack up. He is moving to Frederick County. And that is surprising to those in Frederick County because I am sure they think renting farmland in Frederick County is right expensive. But if we are talking about the high rent people in Virginia looking at Maryland

farms, we are going to be once again in the farm rental market. Right now we are down to 30 percent that own their farm with 70 percent of the acreage leased. This is a difficult situation we are heading toward.

Mr. BRAUNING. Well, you know just as much about it or more than I do, and farms are becoming fewer and farmers—their numbers are fewer too. But the ones that remain—I do not know. It must run in the family. We either have got harder heads than we have good sense or something. Something keeps us on the farm. I do not know what it is, but I would rather be on the farm right now than here even though it does not make much money.

Mrs. BYRON. I am sure you would.

Mr. BRAUNING. You have got to watch what you say here. You have got to watch what you do. [Laughter.]

No matter what I do at home—I mean most of the time nobody sees me, nobody cares. [Laughter.]

Mrs. BYRON. That old cow just is going to swish her tail at you and not say much.

Mr. BRAUNING. That is right. [Laughter.]

Mrs. BYRON. Let me thank you all though. You know, it is an issue when we are talking about losing farmland to development, because with that development comes people. And those people have their needs to be met. And that is agriculture. And we have got to make sure that we are able to meet those needs and when we eliminate herds with this Dairy Buy-Out Program, and we talk about increasing production, you can increase production to just a certain extent and that poor old cow cannot give any more.

I have to tell a story on one of our Maryland senators because it is such a good story. And we try to educate each and every one of our colleagues. And I think I am delighted with the three colleagues today. We have got a Southwesterner, who has different problems in his agriculture. We have got somebody from really Middle America, who has different issues in his agriculture. And somebody from the South.

When we go back to Congress and we are sitting there in the 100th Congress this year and we talk about agriculture, we have a large number of those 435 members that do not know a thing about agriculture. And it is very difficult for us to try to educate them and to explain to them what we mean when we are talking about commodity prices and we are talking about a Dairy Herd Buy-Out Program, et cetera, et cetera.

And so I decided a couple of years ago that we would take a couple of the Maryland delegation who were new to agriculture to visit some farms. I see the Jones are sitting there, and this happened on their farm. I had one of my colleagues who is now in the U.S. Senate who had represented a Baltimore city district. She was not too very well versed on farm and agriculture, but she was willing to learn. We are out in the Jones' milking parlor and we are talking about agriculture and we are talking about how often you milk and what you do on dairy farms, and she said, "Now, how often do you milk a day?" And I said, "Oh, twice a day." Or I guess Jimmy said twice a day. And she looked up and she said, "Oh, 10 times a week." [Laughter.]

I said, "No, Barbara. You do not understand." "Well, yes, 10 times a week." I said, "No, no, 14 times a week." And he explained that sometimes and some farmers, because they were on a feed program were milking three times a day. I said, "You do not turn the spigot off on Saturdays and Sundays, just because the government closes down on Saturdays and Sundays. A lot of industry closes down on Saturdays and Sundays. Agriculture and dairy does not close down on Saturdays and Sundays."

We have not been able to let the herd know when Saturday and Sunday comes so you do milk 14 times a week.

These are some of the things that we are up against when we are talking about agriculture and when we are talking to colleagues of ours on the floor of the House that really do not understand the commitment, the financial commitment, the time constraints and what it means to maintain the agricultural base that we have. And it behooves all of us to get back and to educate some of those inner city people, that we do have a problem in agriculture and we have to retain what we have because I have not figured out another way yet to raise a child without making sure that it has the grain and the nutritional values that are necessary for its health, and that comes from your industry.

I did not mean to get on a soapbox, but I think it is important.

Mr. BRAUNING. It sounds all right to me.

Mr. STENHOLM. Mr. Harris.

Mr. HARRIS. I just wanted to ask Mr. Martz a question. You mentioned about the Secretary of Agriculture or the USDA rejecting an opportunity to sell dairy stocks to India. I would like to hear a little more about that. I think in a time when we are talking about a trade deficit, that it ought to be explored.

Mr. BRAUNING. I concede to my expert from the legislative director of National Milk Producers.

Mr. ODEN. Congressman, I do not know whether you read it in the paper, but this summer the annual monsoon did not arrive in India until very late in the season. And because of that, they were suffering shortages. They have a dairy cooperative system in India. In fact, this country's dairy cooperatives helped them put it together years ago. But because of the dry spell, they lost almost all of their dairy production, and we have what is called a Dairy Export Incentive Program that was part of the 1985 farm bill, that the purpose of which was to encourage exports of dairy products.

Well, the Whole Herd Buy-Out Program has been so successful in reducing stocks, that the CCC stocks were very low this year and USDA looks at this Dairy Export Incentive Program as only a relief of this dairy surplus export program. They do not look at it as an on-going export program like wheat or corn or something else.

India contacted the United States and said, "We are in desperate need of dry-powdered milk," and that they were willing to purchase it. This was not a P.L. 480 giveaway, an actual purchase of sale to India. And we went down to USDA and met with Secretary Lyng and discussed this problem, and they simply said that even though that is on the books and Congress passed it, that we interpret it only as a surplus sale and we do not have enough surplus

now after the Whole Herd Program, you cannot export under this program.

Mr. HARRIS. Thank you.

Mr. STENHOLM. Mr. Nagle.

Mr. NAGLE. No questions.

Mr. STENHOLM. I have just a few comments.

I thank each and every one of you for your testimony today. We appreciate your comments.

I would say that on the meat pizza labeling question, that is one issue that we have finally gotten behind us. We hope. It is in both the House and Senate bills.

The milk chocolate import question is a little more difficult. We have got a few more rough spots in the road before we reach a resolve to that issue.

Each of you mentioned at some point in your testimony the cost of the dairy program. The cost of the dairy program is now only about 5 percent of the total agricultural budget. However, we still have problems and the cash profit squeeze is very real.

I would have to comment as one who is still actively involved in agriculture. I have a cousin that does 95 percent of the work and lets me share in half the losses regarding my farming operation in Texas. [Laughter.]

My congressional district has a significant amount of dairy production in the eastern third. The Dairy Termination Program was slightly controversial in the beef cattle industry. That is water under the bridge. That is hindsight. However, we do have the 5 billion trigger and whether we are going to get the 50-cent price cut. As we have heard today and you hear it all across the United States, there is not unanimous agreement within the dairy industry regarding whether there should be an assessment instead of a price cut. We weighed all the pros and cons, and we conducted field hearings. Subsequently, at this point in time, there are some possible dangers involved in increasing the assessment. There is a good feeling on the part of the dairy industry, especially from the producers' standpoint, that the promotion program has worked effectively.

The Senate does include a 5-cent promotion fee assessment with some means of slipping the price cut until July 1, if in fact purchases by Commodity Credit Corporation in 1988 are greater than 5 billion pounds.

We have heard the regionalization question mentioned time and time again. And I have chosen to refrain from making too many statements about where I think we may be heading in the future as far as dairy policy is concerned until the National Commission on Dairy Policy completes its work and makes its recommendation to this committee.

I did have one question for Mr. Shank. What is the cost per cow in your program.

Mr. SHANK. The cost is broken down on a per cow basis. And it amounts to I think in the current budget, $2.75 per cow.

Mr. STENHOLM. Per month?

Mr. SHANK. No, that would be an annual fee.

Mr. STENHOLM. An annual fee; $2.75 per cow per year.

Mr. SHANK. Yes, I think that is correct.

Mr. STENHOLM. Any other questions of anyone?

Thank you very much for your testimony today.

I would call panel four, Mr. Armacost, Mr. Crum, Mr. Foard and Mr. Weitzer.

Mr. Armocost.

STATEMENT OF WAYNE L. ARMACOST, FARMER, UPPERCO, MD

Mr. ARMACOST. Mr. Chairman, Representative Byron, and Congressmen and staff, I thank you for the opportunity of being here teday.

By way of introduction, my name is Wayne Armacost and I am a principal partner in Hickory Hill Farm, Incorporated. Our farm is located in Baltimore County, Maryland, which is in the heart of the metropolitan district of Baltimore. We are just west of Interstate 83. Other principals in our family corporation are my two brothers, Franklin, III; John; and my father, Raymond, Jr.

I personally have also been actively involved in many local, State and also some national dairy organizations. Please allow me to talk a little bit about where we are as far as our particular farming operation is now and a little bit of past history.

At the height of our operation we maintained a milking herd of 600 registered Holstein mature cattle and 600 head of replacements. Our cropping operation consisted of 500 acres of owned land and an additional 500 acres of rented crop land and pasture. Weather permitting, we raised most all of our forage needs and up to 30 percent of our needed concentrates. The balance of our feed requirements were purchased from local farmers. Protein and minerals were acquired from various channels. We supplied approximately 10 million pounds of milk annually to the Baltimore City fluid market. We also employed 10 full-time and several part-time employees.

Strictly looking at numbers, the Dairy Termination Program has been successful and I do not really think I need to go into a lot of those figures other than to add that maybe in my figures that 1.5 billion pounds probably should read more like 15 billion pounds removed from the market.

I think it is important to mention that a tremendous genetic potential went to slaughter or to export at this time. We look at what the genetic potential is out there now and what maybe looks like is there in the future, but one of the real successes of this program is that in our particular case and I think for many other farmer's, there is a tremendous genetic potential that just their offspring will no longer see the ability to produce, at least in this country.

We had the fortune of being able to export a good number of our dairy cattle.

But it must be remembered that when evaluating the Dairy Termination Program, and I think we lose sight of this from time to time, that approximately 40 percent of that $2 billion program was supported by the dairy farmers themselves through the assessment, and the general public is quite often misled in that idea via the media.

We see that production is below a year ago. At least it was through July. It looks like it is started to edge up somewhat in the August and September months.

Personally though the past 10 years have been quite an emotional roller coaster ride. Drawing on every possible resource in agriculture and especially the dairy segment, we made a decision in 1977 to expand. And it was not predicated on a get-rich short-term encounter, but with a determined dedicated hard work approach within a business that we had expertise.

I might add that I am part of the seventh generation to farm continuously on that same land. But as we saw it, in 1980 the rules of the game drastically changed. All the long-range planning and projecting were no good within an industry that was being controlled more intensively by the short-term governmental pen. With a large debt load and with the loss of our ability to make any type of projections except that income would continue down and the expenses would continue up, we made a tough decision, and that was to submit a bid. And within 6 months, more than 60 years of continual milk production ceased, our entire milking herd headed for slaughter. We were fortunate that the majority of our young stock were able to be exported to Ecuador. We now find ourselves searching for a continuing livelihood within a field of agriculture which shows little promise.

I would like to expound upon that a little bit. In our particular situation, we looked at milk being approximately $14.50 per hundredweight in 1980, the average price for milk that we produced. In 1986, we were looking at $12 milk. In our particular operation alone, that took a quarter of a million dollars annually off the top of our operating budget. And that was just about to the point at where it does not take anybody with too sharp a pencil to figure out what happens.

I can relate to what Dr. Barao mentioned about comments of other alternatives. We have looked seriously within our operation in the past year of what to do. And with agriculture being the way it is, I wish I could tell you that I knew which direction we are going today. But I do not. We are kind of at a point of not knowing exactly what to do. The grain market is suffering. We have looked intensely at the beef operation, including it in where our dairy operation was. It is tough to look at making those changes and that investment and still seeing it come out even though beef prices look a little better than they have in the last couple of years. When you really get it down and you figure your costs, it is really tough to come out.

I also want to add that too many times we looked at this farming operation as a way of life. It is. I love it. I have loved it. But it is also a business. And when I talk to other young men who are about my age, looking at farming and looking at its future and the return on investment, it is just not there. And it is just tough. I talked with a young man last night and it is just tough for him to look at what he is going to do going foward. They have a dairy operation. It is tough for him to look at what to do going forward.

At the same time, if you have expertise in agriculture and you look outside of production agriculture, many supporting industries, and we mentioned this earlier, when I talk to ag employment agen-

cies, they are cutting back. They are reducing their staffs because of agriculture itself just does not look as though the future is there, the production end, to support some of those staffs. So they, in effect, are cutting back. And I do not think that has been mentioned.

So these are just a few things that I wanted to mention before I go on. Certainly the bright spot in the dairy today is the increase in sales in fluid dairy products. I am convinced that the dairymen's commitment to advertising is paying off and they can be commended for that.

Other segments of agriculture have watched this program closely and are judging its strengths and weakness so as to see if it can be of benefit to them.

I might add that Hoard's Dairyman Magazine mentioned this month that we have seen more than $1 billion in 1986 go into advertising. That is a 45 percent increase over 1985 and much of that, in addition to the industry, has gone to branded advertising. I think that they are seeing some effects of our advertising and they are following suit and putting dollars where dollars will have effect.

In closing, I believe two important factors must be addressed if we expect a healthy dairy industry in the future. First, with approximately 160,000 commercial dairies in the country, the industry and it leaders must continue to speak with a single harmonized voice. The industry has received what I perceive to be some unjustified criticism both from within and without agriculture because we have been able to go to Washington with a more unified voice than maybe some other segments. I am convinced there are many more steps to climb before perfection can be attained.

And secondly, it is imperative that Congress and the Agriculture subcommittee objectively concentrate on the long-term needs of agriculture. To focus more attention on the short-term benefits of the cheap food policy rather than long-term health of the agriculture and dairy industry may be far more expensive to the consuming public tomorrow than we can begin to imagine. The deep pocket or the economic squeeze-out theory hardly makes sense at this time when we have had a system that has functioned rather effectively for many years. And it may need some small adjustments and fine tuning to get it back on track.

I thank you very much for this opportunity.

[The prepared statement of Mr. Armacost appears at the conclusion of the hearing.]

STATEMENT OF MILLARD E. CRUM, JR., FARMER, WALKERSVILLE, MD

Mr. Crum. My name is Jack Crum. I thank you for this opportunity to be here today.

Many that are here today have heard me talk and argue about this problem for years to the point that I have been labeled as being contrary. But I prefer to look at it as contrary thinking, because I have given it a lot of thought. I believe in what I am saying. And I see little to change my mind. But I do hope to keep an open mind and be able to change anything where I am wrong.

Let me begin by thanking you who have come to the country to hear what we farmers have to say. Some may even think it inappropriate for me to be here today as I participated in the whole herd buy-out. Though my status has changed, I certainly have a long experience in dairy. My father was a dairyman before me and in 1948, I returned from college and assumed the farming responsibility. Since 1968, I served as a director on the Maryland Cooperative Milk Producers board and then on the Dairymen Incorporated board until my resignation this August.

There are several reasons for my participation in the whole herd buy-out. Obtaining competent help in our area at an affordable wage is almost impossible. There is tremendous urbanization pressure in our area that certainly does not appear to be compatible with large concentrations of dairy animals. Environmentalists are almost harassing us with regulations and requirements that are not economically feasible.

To top it all off, I had the unfortunate experience to have had a lagoon break several years ago with the subsequent lawsuit by the Department of Natural Resources for $10 million.

When the national milk production surplus began to make future price prospects look bleak and because at the age of 57, I was getting a little tired, I decided to participate in the buy-out if the price was at least $15 per hundredweight. This was a figure that I felt was reasonable in my situation. The rest is history. My $15 bid was accepted and as of August 30, 1987, all my dairy animals had gone to slaughter with the exception of approximately 50 heifers that were given to the International Heifers Relief Fund for export.

We are continuing a grain operation which was already being operated. I do not believe that our farm will ever be back in the dairy business. But no matter what motivated me or others, by participation we aided in achieving the goal of reducing the surplus milk supply.

Let me make some observations regarding the success of the buy-out. It did work to reduce the supply of milk dramatically. I understand Commodity Credit purchases will be about 5.4 billion pounds. Not only did it remove animals that produce milk, it removed the producers of more animals so that you had an effectual double impact. And as mentioned this morning, it bought time.

Much of the cost of the program was borne by the dairy industry through assessments and by the participants being in a tax bracket that they probably never experienced. Very little impact was felt by the beef market as commercial dairy herds have a high turnover rate normally. And traditionally, dairy animals are the source of most of the fast food group.

It was the financial incentive that motivated decisions by some including myself to get out. Without this incentive I would still be dairying. There was one negative aspect. Participation was heaviest in areas of shorter supply.

Now, let me express some personal beliefs and ideas. I do not believe that farmers or anyone can expect continuing expanding production for a market that does not exist. We must have a disincentive. The present dairy bill does just that. Yet it does allow areas that have developed a good market to get its price in the market-

place. It has worked. And I believe we should let it continue. We should not penalize with an across-the-board assessment those that have done a good job of developing a fluid milk market.

Also I remember giving our word to some of you that we would not be back to the Hill for further requests very soon. And I think we are running a risk to open the dairy program for reconsideration. We might not come out as well as we are now.

I have heard complaints about large farmers benefiting from Government programs. I would urge you to never exclude them from participation. Without them, efforts to stabilize agriculture cannot be achieved because the large farmer does have a big impact.

We certainly have an adequate national supply of milk. But it is not always in the right place. Often a market needs to be balanced by bringing in or removing surpluses. This must be done by an organization, whether cooperative or proprietary, that has the resources and the structure to do it. The market service payment is now provided for by law. But it is not in favor with the Department of Agriculture. This allows all in the market to share in the cost of balancing and stabilization of a market. Without this sharing of cost, no organization can afford to take on this responsibility, as its members are taking money out of their pockets to enhance others who contribute nothing. This creates an inequitable treatment. I would like to see this provision for self help implemented in appropriate regions.

And, Mrs. Byron, I would like to comment on a question you asked awhile ago about the incentive for increasing milk. Being on the Dairymen Board at the time that we developed an incentive program, I would like to say that it is really not an incentive to produce more milk, but rather to produce milk at the time that it is needed, which is basically fall when schools are in session and whatnot. It is a little bit like the ice business. You do not produce ice in the wintertime when you do not really sell it. You produce it in the summertime. It does not really mean that we need to have more milk, but it does mean we arrange the peak production periods of the cows. This does take some time and some management, but it is possible.

Again, I would like to thank you for the opportunity for being here.

Mr. STENHOLM. Mr. Weitzer.

STATEMENT OF DAVID WEITZER, DAIRY FARMER, POOLESVILLE, MD

Mr. WEITZER. I am David Weitzer. I am a dairy farmer in Montgomery County, director of Maryland and Virginia Milk Producers Association. I am also an agency member of the Order No. 4 Advertising and Promotion Agency, the regional promotional unit in the Mid-Atlantic area. I am also a member of the Maryland Agricultural Commission.

I appreciate the opportunity to appear before this committee to comment on the effect of the Dairy Termination Program on the dairy industry. With the inception of the Dairy Termination Pro-

gram through August 1987, milk production has been down every month compared to the same period, prior year.

The twin-pronged approach of reducing dairy cow numbers through the Dairy Termination Program and the nationally mandated dairy farmer funded milk promotion effort has dramatically reduced CCC purchases of dairy products.

In the calendar year of 1985, CCC purchases were 13.2 billion pounds of milk equivalent, or 9 percent of the total milk production. In the calendar year of 1986, these purchases dropped to 10.6 billion pounds, or 7.4 percent of purchases of total milk production. In this same period, actual government purchases declined 19.7 percent. Currently for the fiscal year 1987, CCC purchases were 5.4 billion pounds, a reduction of more than 50 percent over fiscal year 1986 of 12.3 billion pounds.

Dollar costs to the government also reflect the positive effects of the Dairy Termination Program and the funded advertising. Fiscal year 1986 costs for dairy purchases were $2.4 billion. For fiscal year 1987, the costs were cut in half, to $1.2.

In the process approximately 14,000 dairymen elected to go through the Dairy Termination Program removing approximately 12 billion pounds of milk and 1,496,000 head of dairy cattle. The purchase of 400 million pounds of red meat by the government to offset the additional estimated 519 million pounds coming onto the market due to the Dairy Termination Program helped to turn a weak beef market prior to the Dairy Termination Program into the strongest market since 1980. And a strong beef market helps to move more potential dairy cow culls to the market more quickly. Starting with the diversion program through the completion of the Dairy Termination Program, a 3-year period, dairy farmers were assessed $1.5 billion.

Currently, production in the Order No. 4 area of Baltimore, Philadelphia and Washington is down 4 to 5 percent. In addition, it appears that during the Dairy Termination Program period at least as many dairymen went out of business other than through the Dairy Termination Program as went out through the Dairy Termination Program.

I feel among other reasons these sellouts reflect basically low to negative returns and the resulting inability of dairy farmers to compete for labor and the inability to amortize loans.

Nationally, milk production is up 2 percent over a year ago, and that increased production seems to be concentrated in areas such as California and Wisconsin. To retain some balance in regional production, particularly in the populous east coast area, it may be necessary to have support prices and a Dairy Termination Program if another is needed, reflect regional supply needs.

I feel strongly that the Dairy Termination Program was a very effective tool in both bringing production in line with supply and with substantially reducing government program costs. In addition, dairy farmers helped to fund a substantial part of Dairy Termination Program costs.

Thank you very much.

Mr. Stenholm.

Mr. Free.

STATEMENT OF JOSEPH C. FREE, DAIRY FARMER, FREDERICK COUNTY, MD

Mr. FREE. I appreciate this opportunity today to express my views, first as a dairy farmer who was in the Dairy Buy-Out Program, and also chairman of the Frederick County ASC Committee, which had the largest participation in the Dairy Buy-Out Program.

First a little bit, if you will let me expound a little bit about a personal feeling about the dairy buy-out, what it has done to the life of a person who has milked cows all their life, lived on the same farm, had a family operation, and what this has done to their life given the opportunity to get in the Buy-Out Program.

It is not easy to see a herd of cows leave when you have worked with them. I guess the dairy industry is what someone has said here earlier today is a 7-day-a-week and you have to have a lot of dedication to be with animals seven days a week. I have gone into a transition period where I have gone to a beef operation, but you have to be awful close. You are there with those cows twice a day. You are at their mercy because you are right there beside them. And it is just a great impact to leave the dairy industry, when you knew those cows were loaded. Those young cattle that were loaded on those trucks and you knew what their destiny was. It was not going to another farm. They were going to slaughter.

So I appreciate that opportunity just to put that little personal impact in this because it is an impact. It was not dollars. It was feelings that went into this thing considerably. So I could not go without saying that.

Now, as sitting chairman of ASC Committee, seeing all the government programs that come down the road, the Dairy Buy-Out Program I thought was one of the most efficient, best thought-up government program of all and I will expound on that.

I have heard some comments here today about some inequities. Well, I think the bid program—not too many people have talked about the bid program. I think the bid program was a good program because it allowed one farmer to go out at a different price than another farmer to go out. It gets into the good herds against the lesser herds. Someone can go out, but still your dollars got the milk away from the industry.

I think too many times we have seen a situation here over the last 18, 20-some months of farmers having some problem with another farmer saying it is a bail out. There is no such thing as a bail out in my opinion. Someone sacrificing here. And I kind of have some problem with that situation.

Another thing, once the cows are gone, they are gone. There is no tomorrow or next year coming back because they are gone. This leads into a situation—this is not a short term, but it is a short- and long-term situation because all the young cattle—if you equate it—I think most of us know a cow average in a herd, 3 years. Most of us have just that situation and the cows themselves will not have any offspring, but in my particular situation where I had 100 and some dairy cows plus 60-some head of heifers. Those heifers never had their first calf. So we look down the road. They are definitely never going to be here and regardless of what happens to the milk industry, they are gone. Now, they were the problem. The cow

was the problem and they are gone. So anyway you look at it, that situation is not going to be anymore because the cows have left and we just do not have them.

So anyhow, these are some of the situations as I see it as chairman of the committee. We did have 31 farmers that left and they left for various reasons. My situation was labor. As I said, we had a family operation. So with that, I thank you. I could echo a lot of what has already been said here this morning. I realize I am on the end of the line so I think so much of it has already been said.

Thank you.

Mr. STENHOLM. Thank you. If there is no objection, I would like to insert the statement of Mr. Jack Matthews of the Maryland Farm Bureau into the record.

[The prepared statement of Mr. Matthews appears at the conclusion of the hearing.]

Mr. STENHOLM. Mrs. Byron.

Mrs. BYRON. Thank you, Mr. Chairman.

Let me pursue a couple of areas. In your operation you are talking about one where you have really got four families—your father and your brothers and yourself. You are talking about a fairly large operation.

You said at the height of your dairy operation—was that back in the mid seventies?

Mr. ARMACOST. No, we actually were in full—1977 is when we made the decision to expand the operation. I had come out of school and another brother, who had been there full time, and another one had graduated from high school, we made the decision at that time that we had to expand if we were going to all be interested in continuing viably in the dairy operation. So we were full force into that in about 1981–82. You know, up to the full 1,200 total animals.

Mrs. BYRON. At which time the decision was made to go into the Buy-Out Program.

You said that a percentage of your herd was shipped overseas. Do you know what percentage—or who made the decision? I guess what I am really asking is when we are talking about the stock lines and the breeding stock, who made the decision on what was to be shipped overseas and what was to go off to slaughter?

Mr. ARMACOST. Well, we knew or I knew pretty well the genetic potential of the animals. We were able to move—20 actual mature producing cattle were exported. They were the top quality lines. I would know them. Any other good dairy farmer would know that animal when they came in.

Mrs. BYRON. But you had the discretionary decision to make on which ones were going to be exported?

Mr. ARMACOST. Yes, ma'am. A majority of them, a vast majority of them were younger cattle, bred heifers. And younger heifers down to about 6 months of age. We moved, I think it was 475 animals in total that went, but we also worked with an export order buyer to do that.

Mrs. BYRON. Well, when I think we are talking about approximately—I think you testified that 14,000 dairymen elected to go out through the program, and about, I think you said, 14,000 others have gone out in the meantime for other reasons, economics, labor,

financial, et cetera. We are talking really almost about 3 million head, are we not, that have been lost to the breeding line and to production?

Mr. WEITZER. That would be a guesstimate. I would suppose that is somewhere in the neighborhood.

Mr. CRUM. That would not be quite true, because the ones that went out for economic conditions probably sold to other farmers.

Mrs. BYRON. Oh, OK.

Mr. CRUM. That is a big difference.

Mrs. BYRON. So really we are just talking about maybe 2 million head that attrition——

Do you know what percentage went to export? This is probably not the panel to ask that but I think that is an interesting statistic to look at to see what percentage went into export for the world market, strengthening the world market on stock.

Mr. ARMACOST. I do not know that exact percentage. I do know there has been a few articles in the national dairy magazine, Hoard's Dairymen, which have addressed that, so I know that it is available. It was a relatively small percentage, I am sure. I cannot quote you that figure.

Mr. FOARD. Mrs. Byron, I would like to comment. The export market was not an easy market to get into. There was a lot of politics in the other countries that caused problems. A lot of their barriers, health requirements, and whatnot, stopped a lot of export. And I find that a lot of the people I knew it just was not worth the effort.

Mrs. BYRON. It was just easier to let them go.

Mr. FOARD. Right. Actually dollarwise, they were not much that further ahead, except some real unusual animals.

Mrs. BYRON. I have no further questions, Mr. Chairman.

Mr. STENHOLM. For the record, 1,199,700 dairy cattle were slaughtered in the Dairy Termination Program, 63,807 were exported.

Mr. Harris.

Mr. HARRIS. Thank you, Mr. Chairman. I do not have any questions. I just wanted to thank the witnesses of this panel, as well as the other witnesses. It has certainly been helpful to me as a new kid on the block on this committee, and coming from a State where we had a deficit to start with as far as milk production is concerned, and it is even more of a deficit now after the Buy-Out Program so I can appreciate the situation of the underproduction.

Thank you.

Mr. STENHOLM. Mr. Nagle.

Mr. NAGLE. No questions.

Mr. STENHOLM. I always like to remind my two so-called freshman colleagues on this committee, that I did not think too much of the seniority system 8½ years ago, but it is looking better all the time. [Laughter.] To Beverly and me.

Mrs. BYRON. We can climb it together at the same time.

Mr. STENHOLM. That is right.

Mr. Armacost, what are you doing now? What are you, your brothers, and your father doing now?

Mr. ARMACOST. As I tried to mention earlier, I guess we are trying to decide what to do. That is a tough one. We have a few

sheep. We have a few chickens. I kind of feel like the farmer they talked about at the turn of the century. We have a few sheep, chickens. We still have a few of the beef steers that were born out of our particular cattle before they went to slaughter. And we are just trying to assess the agriculture situation as it is now. And I am presently exploring employment possibilities off the farm.

Mr. STENHOLM. How many acres are you farming?

Mr. ARMACOST. We farmed approximately 1,000 at the time that we sold all the cows. We have given up some of our approximately 250 acres of our rented land that was on the outer recesses of the extent of the land that we had and may possibly give up another couple of acres this year.

I would like to mention along with that, if I could. Mrs. Byron, when you mentioned about this disparity between owning land and renting land. I think the real key comment that I can make there is the return on investment is not there at this particular time for people within agriculture to own that land. It is there for an investment purpose in running this mid-Atlantic area for a lot of people that are buying, that are making their money outside of agriculture. And we cannot compete with those people that will come in, that are making money somewhere else in this country and buy land away from them, so what we are going to do is we are going to rent it, and if we can rent it at a lot lower price than we can buy it for.

Mr. STENHOLM. Mr. Foard, I personally agree very much with your statement, "We must have a disincentive." I would choose to add two other words—for overproduction.

Mr. FOARD. Right.

Mr. STENHOLM. I am very interested in the so-called "two price system" as we look to penalize those who overproduce.

Mr. Free, have you had any DTP compliance problems or do you anticipate any compliance problems within your county?

Mr. FREE. So far we have not had any compliance problems. Realizing that we are only into this, you know—as far as the cattle, yes. They are all gone. With checks there. It is going to be somewhat—some situations. We did have one situation where we were notified that there was dairy cattle on a pasture, on a farm that went out. You are allowed to do that. They better had not come near the buildings. But you are allowed to rent pastures out to neighboring farmers, and we checked it out and that situation was in line and other than that, we have worked out very well.

Mrs. BYRON. Joe, does that mean that you have to take the bucket and three-legged stool and go out to the field?

Mr. FREE. I do not think we want to even see that. Because if someone wants to go to all that trouble, I guess we are going to let them.

Mr. STENHOLM. I think I will forego any other questions.

I thank each of you for your testimony today.

I would now ask if there is anyone in the audience who has a question or comment.

Please do not be bashful. Go to the mike.

Mrs. BYRON. Two minutes goes fast.

Mr. STENHOLM. Please identify yourself and make your statement.

STATEMENT OF JIM RICHARDSON, MARYLAND STATE EXECUTIVE DIRECTOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. RICHARDSON. I was very pleased that this hearing was here today. We look forward to working with the subcommittee and the House Ag Committee in the upcoming months and years in carrying out farm programs.

Many of the questions were addressed toward ASCS and I feel that our staff and personnel have carried out the Dairy Termination Program with great expertise and with very little hardship to both the farmers and the taxpayers.

I am here to answer any questions that you might have although I believe most of the information and data has been covered today.

Thank you very much.

Mr. STENHOLM. Mr. Richardson, have you witnessed any DTP compliance problems within the State of Maryland?

Mr. RICHARDSON. We have had a few minor violations within the state. Most of those have been rectified at this point in time. I think the big issue is an apparent loophole in the leasing of dairy facilities. We have not experienced that problem here in the State.

Mr. STENHOLM. This committee has been diligent in following all rumors of loopholes. We believe that the Dairy Termination Program was intended to operate in the spirit in which it was passed. Moreover, we will be very interested in any problems in which changes of the law may be required to close loopholes so that the full intent of the Dairy Termination Program is met.

We appreciate your input concerning the Dairy Termination Program.

Mr. RICHARDSON. Thank you.

STATEMENT OF RUTH SCHRIVER, FARMER, MARYLAND

Mrs. SCHRIVER. Good morning. I am Ruth Schriver. We have a very small dairy farm and I am sure we are what is considered in the history books as marginal farmers, because with the labor problems and so forth, that is just what we are. But we have a staunchen barn with a dumping station which is a primitive form of milking to most people here.

However, there are a couple of things that I am concerned with that were not addressed today. I think most of the information was going towards a short-term solution to the problems, and perhaps sometimes we do not see the forest for the trees.

My concern is to look at the long-term situation and the fact that we would have no surpluses if the federal government would get out of farming and stop the subsidies, et cetera. As we all know, subsidies increase production. And I have read even in the New York Times articles that say over the long-term period, we want to get the government out of farming simply because government programs always spawn more government programs. I think this is a fact of life.

The other thing that concerns me is this. The gentleman down here talked about the Canadian system of mandatory controls. That disturbs me a great deal and I would like to know what he meant by mandatory controls.

Mr. STENHOLM. If you are talking about the Canadian system, that is basically a quota system in which you are told how much milk you can produce and at what price. That is what I believe he made reference to.

I would comment, Ms. Schriver, on the concept of agricultural subsidies. Be it good or bad, we now live in an international market agriculturally. Dairy might possibly could survive as an industry without a government program. The transition would be very painful, however. But grains and other commodities in which over half of what we raise has to be sold into the world market would have an extremely difficult time without some type of support program.

Nonetheless, the American consumer is still paying less for food than any other consumer in the world.

I appreciate the spirit in which you make your statements. Dairy is a part of the overall agricultural picture, and therefore, I spend a lot of my time trying to keep the dairy industry, beef industry, and the cotton industry all in the same boat rowing together, rather than taking our own little canoe out in a different direction.

But I appreciate your comments.

Ms. SCHRIVER. Do we not import a lot of food? We input a great deal of food. Cheese, Argentine beef, et cetera.

Mr. STENHOLM. We do import, but we export far more than we import. Today we are in a surplus situation and those who suggest protectionist trade legislation scare me as a farmer. If there is going to be a future for any of us in agriculture, we are going to have to sell even more in those markets in the future.

Any closing comments? Thank each of you for your comments.

Mrs. BYRON. I have only a few comments. I would like to take this opportunity to thank each and every one of you for coming to the hearing today. And let you know that everybody is invited to stay for a little lunch. I have heard from Mr. Harris over here who says it is far past his lunchtime. But I am going to take two more seconds. Since we have had a dairy hearing, I feel that my three colleagues ought to go home with a little something from Western Maryland and Carroll County.

None of you are getting anything on four feet to walk down the road with because as you hear we have sold a good many of our cattle, so we will have to be satisfied with some apples. A package of good old Carroll County goods here. Everybody needs the Carroll County logo, so you will remember where this came from. And a key chain so you do not get lost on the way home. And thank you each and every one of you for coming. And now I think we will feed you. And I hope everyone can stay.

Mr. STENHOLM. Any closing comments from Mr. Harris and Mr. Nagle.

Mr. HARRIS. I made mine a minute ago.

Mr. STENHOLM. If there is nothing more to come before this hearing, we thank you, Beverly, for inviting us.

[Whereupon, at 12:25 the subcommittee adjourned.]

[Material submitted for inclusion in the record follows:]

THE DAIRY HERD BUY-OUT PROGRAM -
ITS IMPACT ON MARYLAND

by

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Testimony presented to the House Agricultural Committee
Westminster, Maryland, November 2, 1987

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CONTENTS

Summary/Conclusions

The Food Security Act of 1985 authorized the Secretary of Agriculture to implement a Dairy Herd Buy-out Program (DHBO) in an effort to reduce milk production and surplus dairy stocks. Under the DHBO, producers received payments from the United States Department of Agriculture based on bids submitted to and accepted by the Secretary of Agriculture. In return for the payments, producers agreed to sell all dairy cattle for slaughter or export and to discontinue milk production for at least 5 years.

One hundred and eighteen of Maryland's 2,100 farms with milk cows participated in the DHBO. These 118 farms accounted for 5 percent of the dairy farms in Maryland, 10.5 percent of the cows and 7.4 percent of milk sales in 1985.

A study was made by researchers at the University of Maryland in 1986 and 1987 to determine if there were any significant differences between those dairy herds in Maryland that participated in the DHBO and those that did not, and to find out why some farmers participated in the DHBO.

The 118 dairy farms in Maryland that participated in the DHBO were divided into two groups for analysis: those who were members of the Dairy Herd Improvement Association (DHIA) and those who were not members of DHIA. A sample of 114 DHIA dairy producers who did not participate in the DHBO was selected randomly to serve as a control group. Comparisons were made for the state of Maryland and for the top eight dairy counties in Maryland: Frederick, Carroll, Washington, Harford, Kent, Cecil, Garrett, and Baltimore. In addition, a case study was conducted in Harford county to collect personal data on dairy farm operators and to see why farmers participated in the DHBO.

There was not a significant difference in either herd size or milk production per cow between DHIA producers who participated in the DHBO and those who did not participate, however, in both the state and the eight counties, herd size and milk production per cow were substantially less for non-DHIA producers who participated in the DHBO than for DHIA producers who participated or did not participate in the DHBO.

Other factors that were relatively the same in the state and in the eight counties were: days open, days in milk, calving interval and somatic cell count. Participating DHIA herds averaged more days open, more days in milk, and longer calving intervals. Also, there was a lower percentage of herds in the low somatic cell count group than nonparticipating DHIA producers.

Based on the above data, one could conclude that, on average, DHIA farms and producers who participated in the DHBO probably were not as well-managed as DHIA farms and producers who did not participate in the DHBO. This does not mean that every participating DHIA herd was less well-managed than nonparticipating DHIA herds because there were additional herd and personal factors that affected the decision whether or not to partipate.

Information on participating and nonparticipating herds in Harford county, Maryland was obtained from the County Agricultural Agent and the County Director of the Agricultural Stabilization and Conservation Service (ASCS). Both were familiar with most dairy farmers in the county.

The average herd size and milk per cow were less for participating herds than for nonparticipating herds in the county -- as they were for herds throughout the state and in the other top dairy counties. Other differences noted about dairy herds in this county were: ∘ participating

operators tended to be older; • they are better educated; • they have more debts; and • they hold off-farm jobs more than the nonparticipating operators.

In their order of frequency the reasons dairy operators in Harford county participated in the DHBO program are: inadequate income from dairying; retirement; off-farm employment opportunity and high debt.

The Dairy Industry In the United States

The supply of milk and dairy products in the United States has exceeded consumption during the 1980's. This situation can be attributed, largely, to the adoption of improved technology, the efficiency of large herds and production incentives provided by dairy and crop legislation. Surplus production increased from a relatively modest 3.2 billion pounds in 1979 to about 12.5 billion pounds in 1985 (Table 1). As a result of this excess production, the accumulated surplus of dairy stocks reached 22.6 billion pounds in 1984.[1] About 17.4 of these 22.6 billion pounds had been purchased by the government's Commodity Credit Corporation to support milk prices. The cost to the government of continuing to buy and maintain relatively large dairy product stocks was the main reason for including provisions to reduce milk production in the Food Security Act of 1985.

There were two major provisions in the Food Security Act that were designed to decrease milk production:[2] a Dairy Herd Buy-out Program (explained on page 1) and periodic decreases in the support price for milk.

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[1] Economics Research Service, USDA.

[2] Provisions of the Food Security Act of 1985 Economic Research Service, USDA.

In addition to the main provision of the DHBO Program, all dairy cattle owned by the producers had to be slaughtered or exported. All facilities used for milk production could not be used by these dairy farmers or any other producers to produce milk for a period of 5 years. To help offset the cost of the DHBO the price of milk received by non-participating producers would be reduced by 40 cents per hundredweight (cwt.) during the period April 1 to December 31, 1986 and 25 cents during the period January 1, 1987 to September 30, 1987.

Table 1. The U.S. Dairy Sector, 1974-1986.

Year	Production	Consumption[1] (million pounds)	Surplus	Yield/Cow (pounds)
1974	115,586	113,700	1,886	10,293
1975	115,398	114,200	1,198	10,360
1976	120,180	117,200	2,980	10,894
1977	122,654	116,200	6,454	11,206
1978	121,641	118,800	2,841	11,243
1979	123,350	120,200	3,150	11,492
1980	128,406	119,042	9,364	11,891
1981	132,770	120,288	12,482	12,183
1982	135,505	122,135	13,370	12,306
1983	139,672	122,474	17,198	12,585
1984	135,450	126,912	8,538	12,506
1985	143,667	131,150	12,517	13,031
1986[2]	144,077	134,800	9,814	13,800

[1]Based on commercial disappearance.

[2]Subject to revision.

Sources: USDA: Agricultural Statistics, Milk Production Disposition and Income, Dairy Situation and Outlook Yearbook, Agricultural Outlook, January-February 1987, and Butler, L.J., "Testimony before the House committee on agriculture, subcommittee on livestock, dairy and poultry", Mimeograph, Washington DC, March 4, 1987.

Under the 1985 Act, the support price of milk would remain at $11.60 per hundredweight for 1986, decrease to $11.35 for the period January 1 to September 30, 1987 and to $11.10 for the period October 1, 1987 to December 30, 1990. However, there were provisions permitting adjustment of the support price, up or down, depending on the estimated level of price support purchases.

Nationally, about 14,000 dairy farms, involving 1.6 million cows were involved in the DHBO (Table 2). These farms produced about 12 billion pounds of milk in 1985, which amounted to about 8.7 percent of domestic milk production.

In Maryland, 118 dairy farms with about 13,000 cows participated in the DHBO. This represented about 5.6 percent of dairy farms, 10 percent of dairy cows and 7.4 percent of milk sales in 1985.

Table 2. Participation in the Dairy Herd Buy-out Program. United States and Maryland, 1986.

	United States	Maryland
Number of Dairy Farms	13,988	118
Percentage of Dairy Farms	5.1	5.6
Percentage of Sales	8.7	7.4
Number of Cows (in thousands)	1,550	12.7

Source: United States Department of Agriculture and Maryland Department of Agriculture.

One purpose of this research was to determine if there were any significant differences between those dairy herds in Maryland that participated in the DHBO and those that did not. A second purpose was to identify reasons farmers gave for participating in the DHBO.

The Maryland Dairy Industry

Dairy farming is the second largest agricultural producing sector in Maryland, exceeded only by poultry and poultry products. In 1986 Maryland dairy farmers produced about 1.6 billion pounds of milk and had gross sales of almost 212 million dollars (Table 3). There were about 2,100 dairy farms and 124,000 dairy cows in Maryland in 1986. Milk production per cow averaged slightly over 13,200 pounds.

Table 3. Maryland's Dairy Sector, 1974-1986.

Year	Number of Cows (thousand)	Farms With Milk Cows (number)	Annual milk per Cow (pounds)	Production (million pounds)	Sales (thousand dollars)
1974	136	4,200	11,066	1,505	130,816
1975	138	4,200	10,942	1,510	144,998
1976	141	3,700	10,986	1,549	155,015
1977	138	3,300	11,413	1,540	160,160
1978	134	2,900	11,493	1,505	170,065
1979	126	2,800	12,063	1,520	188,859
1980	126	2,700	12,063	1,520	205,180
1981	124	2,600	12,548	1,556	220,792
1982	122	2,500	12,449	1,581	219,520
1983	123	2,300	13,057	1,606	222,880
1984	121	2,300	12,645	1,530	212,240
1885	123	2,200	13,211	1,625	218,508
1986[1]	124	2,100	13,226	1,640	211,560

[1]1986 figures were provided by the Maryland office of the National Agricultural Statistics Service and are subject to revision.

Sources: Milk Production, Disposition, and Income, Agricultural Statistics, USDA and Maryland Agricultural Statistics, Maryland Department of Agriculture.

The number of dairy cows in Maryland decreased steadily from 141,000 cows in 1976 to 121,000 cows in 1984. Between 1984 and 1986, the number of cows increased slightly to 124,000. The number of dairy farms has decreased from 4,200 in 1974 to 2,100 in 1986, a decrease of 50 percent. During this time average milk per cow increased from 11,066 pounds to 13,226 pounds per year. As a result, annual milk production increased 135 million pounds between 1974 to 1986.

Eight counties accounted for 83 percent of the cows, 86 percent of production and 83 percent of milk sales in Maryland in 1985 (Table 4). These counties in descending order of production were: Frederick, Carroll, Washington, Harford, Kent, Cecil, Garrett, and Baltimore. Frederick, with 29 percent of milk sales, was by far the largest dairy county in the state with Carroll and Washington counties in second and third place.

Table 4. The Eight Top Dairy Counties in Maryland, 1985.

County	Number of Cows (000)	Production (million pounds)	Sales[1] (thousand dollars)	Sales (percent)
Frederick	36.4	488	63,391	29.0
Carroll	19.7	271	35,138	16.1
Washington	17.0	232	30,189	13.8
Harford	7.7	103	13,315	6.1
Kent	4.9	76	9,872	4.5
Cecil	5.6	76	9,833	4.5
Garrett	5.4	76	9,807	4.5
Baltimore	5.5	75	9,743	4.5
Others	20.8	229	37,204	17.0
State	123.0	1,625	218,508	100.0

[1]Estimated sales based on average return of $13.10 per hundredweight with .083932 percent utilization of milk. Columns do not add due to rounding.

Source: Maryland State Department of Agriculture, Maryland Agricultural Statistics Summary for 1985.

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Of the 118 dairy farms in Maryland that participated in the DHBO, 91 or 77 percent were in the top eight dairy counties. These 91 farms accounted for 5.5 percent of the dairy farms, 10 percent of the cows and 7.1 percent of milk sales in those counties (Table 5).

Dairy Herds Statewide

The 118 dairy farms in Maryland that participated in the DHBO were divided into two groups for analysis: those who were members of the Dairy Herd Improvement Association (DHIA) and those who were not members of DHIA. To obtain data on herds that did not participate in the DHBO, a sample of 114 dairy producers was selected from a list of DHIA producers in each

Table 5. Participation in the Dairy Herd Buy-out Program, Top Eight Dairy Counties, Maryland, 1986.

County	Number of Farms	Percent of Farms	Number of Cows and Heifers	Percent of Cows	Sales (hundredweight)	Percent of 1985 Sales
Baltimore	4	4.6	1,135	21	117,771	15.7
Carroll	10	4.0	1,185	6	116,660	4.3
Frederick	31	6.0	3,610	10	352,588	7.2
Harford	18	11.0	1,680	22	156,698	15.3
Washington	8	3.0	1,035	6	105,490	4.5
Cecil	7	7.0	627	11	62,965	8.3
Kent	7	8.0	612	12	57,624	7.6
Garrett	6	3.0	289	5	26,132	3.5
Total Top 8	91	5.5	10,173	10	995,928	7.1
Others	27	3.7	2,532	13	246,660	10.8
State Total	118	5.0	12,705	10.5	1,242,594	7.4

Sources: USDA Agricultural Stabilization and Conservation Service and Maryland State Department of Agriculture, Maryland Agricultural Statistics Summary for 1986.

county in proportion to the total number of DHIA producers in each county. The sample was selected from DHIA producers rather than from all producers because data on DHIA producers were readily available from DHIA records.

The sample of DHIA producers probably was not representative of all dairy producers in Maryland who did not participate in the DHBO, as DHIA producers generally have larger herds, with higher milk production per cow and are generally considered to be better managers than non-DHIA members.

It could be misleading to compare data from the 114 DHIA members who did not participate in the DHBO with the entire group of 118 producers who participated in the DHBO. To obtain a more valid comparison, an analysis was made between the sample of DHIA members and non-DHIA members who participated in the DHBO as well as with the DHIA members who did not participate in the DHBO.

The following data for the three groups of dairy producers are shown in Table 6: number of herds, herd size, pounds of milk per cow, days in milk, days open, calving interval and low somatic cell count.

Herd size and milk per cow were substantially less for non-DHIA members who participated in the DHBO than for either participating or nonparticipating DHIA members. Non-DHIA producers who participated in the DHBO had an average herd size of 66 cows compared to 101 cows for DHIA producers who participated in the program and 87 cows for nonparticipating DHIA producers. Non-DHIA participating producers averaged 12,191 pounds of milk per cow while DHIA participating producers averaged 15,135 pounds and DHIA nonparticipating producers averaged 15,666 pounds.

DHIA participating producers averaged 133 days open and 192 days in milk compared to an average of 123 days open and 187 days in milk for nonparticipating DHIA producers. Also, participating DHIA producers had fewer herds with a low somatic cell count than nonparticipating DHIA producers -- an average of 60 percent compared to 63 percent. Although the average calving interval was not significantly different between the two groups, the variation within each group was significantly different. Participating DHIA producers had a standard deviation of 1.82 months compared to only .8 months for nonparticipating DHIA producers.

Table 6. Characteristics of Herds in Maryland Participating and Not Participating in the Dairy Herd Buy-out Program, 1986.

	Participating		Not Participating
	Non-DHIA Producers	DHIA Producers	DHIA Producers
Number of Herds	76	42	114
Herd Size	66	101	87
Milk Per Cow (pounds)	12,191	15,135	15,666
Days in Milk	--	192	187
Days Open	--	133	123
Calving Interval (months)	--	13.7	13.5
Low Somatic Cell Count (percent)	--	60	63

Dairy Herds in Eight Dairy Counties

Similar to the statewide analysis of dairy farms in Maryland, a study was made of the top eight dairy counties in Maryland where dairy farming was the most important agricultural enterprise.

Of the 118 dairy producers in Maryland who participated in the DHBO, 91 were located in one of the top eight dairy counties. Of these 91 producers, 32 were members of DHIA and 59 were not members of DHIA.

The non-DHIA producers in the top eight dairy counties who participated in the DHBO generally had smaller herds and produced less milk per cow and sold less milk per farm annually than either the participating or nonparticipating DHIA producers in the top eight dairy counties. The non-DHIA producers averaged 62 cows per herd compared to 114 cows for participating DHIA producers and 88 cows for nonparticipating DHIA producers (Table 7). Non-DHIA participating producers averaged 11,908 pounds of milk per cow compared to 15,236 pounds for participating DHIA producers and 15,898 pounds for nonparticipating DHIA producers.

Participating DHIA herds averaged 131 days open and 191 days in milk while nonparticipating DHIA herds averaged 121 days open and 184 days in milk. Nonparticipating DHIA herds also had a shorter calving interval and a higher proportion of herds with a low somatic cell count.

The data on dairy herds in the top eight dairy counties in Maryland and on herds throughout Maryland support the conclusion that DHIA herds participating in the DHBO, on the average, probably were not as well-managed as DHIA herds not participating in DHBO. This does not mean

Table 7. Characteristics of Herds in Eight Dairy Counties in Maryland Participating and Not Participating in the Dairy Herd Buy-out Program, 1986.

	Participating		Not Participating
	Non-DHIA Producers	DHIA Producers	DHIA Producers
Number of Herds	59	32	83
Mean Bid (dollars)	15.95	16.18	--
Mean Herd Size	62	114	88
Mean Milk Per Cow (pounds)	11,908	15,236	15,898
Mean Days in Milk	--	191	184
Mean Days Open	--	131	121
Mean Calving Interval (months)	--	13.7	13.4
Mean Low Somatic Cell Count (percent)	--	60	64

that every dairy herd that participated in the DHBO was less well-managed than all of those that did not participate because there were other factors affecting the decision to participate or not to participate.

Herd and Personal Characteristics in Harford County

A case study was conducted in Harford County, one of the top eight dairy counties in Maryland, to collect personal data on dairy farm operators and to identify reasons farmers gave for participating in the DHBO. These data were not available in DHIA records.

Information was obtained from records in the county Cooperative Extension Service (CES) and the county Agricultural Stabilization and Conservation Service (ASCS) and from personal interviews with the County Extension agent and the director of the county ASCS office.

There were 18 dairy farms operated by 29 individuals in Harford county which participated in the DHBO. Data on these farms and their operators were compared with a sample of 17 dairy farms and 28 operators in Harford county which did not participate in the DHBO (Table 8).

The average size of herds participating in the DHBO was 66 cows compared to an average size of 77 cows for nonparticipating herds.

Table 8. Dairy Herds and Milk Producers in Harford County, Maryland: Participating and Not Participating in the Dairy Herd Buy-out Program, 1986.

	Participating Herds	Non-Participating Herds
Number of Herds	18	17
Herd Size	66	74
Milk Per Cow (pounds)	12,984	15,926
Feed Produced (over 75 percent)	17	16
Farm Organization		
Individual	10	8
Partnership	8	8
Corporation	0	1
Number of Operators	29	28
Age of Operator		
Under 40	7	15
40-60	12	10
Over 60	10	3
Education		
High School Graduate	21	23
College Graduate	8	5
Debt		
More than 70 Percent of Equity	3	1
40-70 Percent of Equity	2	4
Less than 40 Percent of Equity	12	12
Off-Farm Employment		
Yes	5	1
No	11	16

Participating herds averaged only 12,984 pounds of milk per cow compared to 15,926 pounds for nonparticipating herds. There were no significant differences in percent of feed produced and kind of farm organization between participating and nonparticipating farms. There were substantial differences, however, for age of operator and extent of off-farm employment. Participating operators tended to be older and have more off-farm employment than nonparticipating operators.

The reasons given by the 29 operators in the county for participation in the DHBO are shown in Table 9. Inadequate income from dairy farming was the most frequently mentioned reason, with eight operators indicating that this prompted them to quit dairy farming. Other reasons given frequently were: retirement (7), take off-farm job (5) and high debt (4).

Table 9. Reasons for Participating in the Dairy Herd Buy-out Program, 29 Operators, Harford County, Maryland 1986.

Reason	Number of Operators
Inadequate Income	8
Retirement	7
Take Off-Farm Job	5
High Debt	4
Tired of Dairying	2
Land was sold	1
Other	2
Total	29

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Profit Enhancement and Cost Reduction through Resource Productivity Adjustments on Commercial Dairy Farms in Maryland, the Northeast and the U.S.

by

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Testimony presented and discussed before the House Agricultural Committee of the U.S. Congress, at the Carroll County Agricultural Center, Westminster, Maryland, 2 November 1987.

Contents

Profit Enhancement and Cost Reduction through Resource Productivity Adjustments on Commercial Dairy Farms in Maryland, the Northeast and the U.S.

Dr. John W. Wysong*

Introduction

Modern dairy farmers in the 1980's have emphasized resource cost control and adjustment to market and government program incentives in order to economically survive in domestic and foreign markets with surplus dairy products production. The reduction in effective net on-farm prices for milk and cull cattle and calves from 1981 through 1986 has had adverse effects on average net dairy farm incomes, net cash flows and general ability to service farm business debts and maintain or improve levels of living of dairy farm workers and managers as well as their dependents and families. Results of a study and analysis by the University of Maryland Cooperative Extension Service of selected case study dairy farm businesses in Maryland demonstrated that selected farm resource productivity adjustments can help some but not all dairy farmers survive and prosper economically. In addition, resource adjustments have contributed to lower real costs for national food supplies required by domestic consumers of "real" dairy products.

Maryland's Improved Dairy Farm Efficiencies

Dairy farmers in Maryland, the Northeast and the U.S. during the 1980s as well as earlier have increased their average technical and economic productivity of farm workers and managers by increasing the average milk output per cow in their herds and by increasing the average number of milk cows handled annually per farm worker. The combined effect has been evidenced in the increased average milk produced per worker over time as well as the increased labor and managerial resource productivity on different sizes of farms at any given time and in any given farm production region. Intensive improved management of selected Maryland dairy farm businesses resulted in an average increase of 54,000 pounds of milk produced per worker between 1984 and 1986 for an average level of 517,000 pounds of milk per man equivalent. At the 1986 Middle Atlantic (Order No. 4) Federal Milk Marketing Area blend price of $12.66 per cwt. of milk, the average dairy farm worker in the study generated $64,060 gross receipts from milk sales. In addition, cull milk cows and calves and small sales of crops including grains, hay and straw generally added another $10,000 to $12,000 of farm receipts per worker. As recently as 1984 when the study was initiated, the average dairy farmer studied produced only 464,000 pounds of milk per worker, but a blend price of $13.67 per cwt. for milk was received. This lower technical productivity of labor and management resources combined with the

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higher average price received resulted in gross receipts from milk of $63,019 per worker plus annual income from crops and cull animals of $10,000 to $12,000 per man employed.

Productivity of labor resources was enhanced by expanding the average herd size from 91 to 96 milk cows and increasing milk produced per cow from nearly 1500 pounds to over 1600 pounds per milk cow and average cows handled per worker from nearly 30 to over 31, cows per worker. With average labor force size relatively stable in both 1984 and 1986 at 3 man equivalent, the average volume of milk per dairy farm business expanded from 1,395,000 pounds to 1,550,000 pounds. When the dairy farm businesses were sorted into four cow herd size groups, it was found that human labor and management productivity in 1986 increased from an average of 416,000 pounds of milk per worker with an average of 58 milk cows per farm to 588,000 pounds of milk per worker with an average of 178 cows per farm. However, the 70-99 cow size grouping had an average of 566,000 pounds of milk per worker with an average of 85 milk cows in 1986. Average milk technical productivity differences per worker and manager were not significant for the larger milk cows herd sizes. In fact, some of the largest herds had lower average human resource productivity coefficients than the moderate sized dairy herds in both 1984 and 1986. Therefore, the dairy farms in this study with three full-time worker equivalents appeared to be very competitive in terms of labor resource use efficiency with the six worker and manager labor forces of the large dairy farms. Even the large labor force dairy farms in Maryland were essentially family type farms which utilized substantial family labor and management inputs. The smallest 1986 dairy cow herd grouping with 38 to 69 cows, and a 58 cow average herd, was significantly lower in average cows per worker (21 cows per man) than the third group with 100 to 149 cows per farm and an average of 120 cows and 38 cows per man. These relationships were similar to those of other University of Maryland studies dating back to the dairy surplus days of the 1950's when 125 billion pounds of milk was produced in the U.S. in 1956 and 127 billion pounds in 1964 compared with 144 billion pounds of output in 1986 (Wysong, 1959, 1980, 1986).

U.S. and Maryland Milk Output Responds to Feed Price Variations

In the middle 1970's from 1973 through 1975, U.S. milk production dropped to nearly 115 billion pounds each year and U.S. and global grain prices rose rapidly. The high feed grain and protein supplement costs to dairy farmers and more profitable farm alternatives of the early 1970's om Maryland and the U.S. were a major factor in reducing milk supplies nationally. Cyclically, the surplus U.S. and Maryland feed situation with lower average grain and forage prices of the late 1970's and of the mid-1980's has caused increased concentrate feeding per cow in Maryland and the U.S. The sharp short-term rise of an average of over 1,000 pounds of milk per cow in this study, even allowing for the feed shortages in Maryland resulting from the 1986 drought, reflects economic and technical biological capital adjustments by dairy farmers to changing market supply and demand factors. The demand per capita for dairy products in Maryland and the U.S. has increased in the mid-1980s as the real cost of dairy products has declined.

Land Resource Productivity Shows Long-run Increase but Short-run Stability

Cropland productivity in this study did not increase from the 1984 level of an average of 5,006 pounds of milk produced per acre of farmland cropped. However, over time, the average amount of milk produced per acre of crops produced on Maryland dairy farms has increased from a base of approximately 3,000 pounds of milk per acre in the 1950's. The higher productivity of farmland in Maryland and the U.S. in terms of milk output, reflects 1) higher average crop yields per acre and 2) shifts toward higher yielding and better quality forage and grain crops. This 1984-86 study showed that the larger herds were located on farms with larger quantities of crop acreage and grain and forage production. In 1986, the average Maryland dairy farm analyzed utilized 298 crop acres to handle 96 milk cows, or nearly 3.1 crop acres per cow.

Cost Reduction Adjustments Still Occurring in Maryland and U.S.

Increased efficiency, lower cost production and enhanced profitability are still attainable on moderate-sized dairy farms in Maryland, the Northeast, the Lake States and Corn Belt regions which utilize on-farm production of forages and concentrates through the dairy herd and market wholesale milk and cull cattle. The large volumes of milk marketed from large labor force farms with large numbers of milk cows will not be beneficial to consumers in terms of lower raw material wholesale milk prices and retail product prices unless technical and economic efficiency and productivity are increased at any given time or over a period of time. That is, resource use efficiency improvements need to guide future government dairy policies and programs to get cost reduction at the retail levels.

This analysis of Maryland case study dairy farm businesses illustrates the actual adoption of technology relative to the mechanical and biological dimensions of the farm business. The political, social and economic adjustments of U.S. dairy farm firms will continue to result in fewer but larger farms and ranches. Consolidation of the smaller national dairy herd onto fewer milking and feeding sites can result in efficiencies and productivity increases which are reflected in lower costs of production and lower retail dairy product prices than would otherwise occur.

A dairy herd and farm demonstration project such as reported above required multidisciplinary Cooperative Extension educational inputs. County agricultural science agents assisted in each county. State extension education specialists from animal sciences included Dr. Kim Cassel, nutrition, Dr. Robert Peters, mastitis control and milking systems, Dr. Mark Varner, integrated reproduction management, Dr. Joe Manspeaker, herd health, Dr. Larry Stewart, crop and dairy buildings and equipment systems, Dr. Lester Vough, soil and crop production systems, Dr. Lee Majeskie, DHI records and systems, Miss Jeanne Eickleberge, mastitis control and project coordinator, and Dr. John Wysong, farm and financial planning, analyses and adjustments. This team of experts in specialized areas of modern dairy farming systems worked both together and separately with the managers, owners and workers on each of the case study dairy farms studied. This type of "expert system" educational and action -oriented approach not only helped the farm businesses studied, but provided useful approaches and prin-

ciples to use with other Maryland, Northeastern and U.S. dairy farmers struggling to increase profitability and efficiency in their chosen profession.

Displaced Human and Farm Real Estate Resources

This type of educational and analysis program will not prevent some workers and managers from becoming displaced dairymen. However, it can show present and prospective dairymen which types and sizes of crop - dairy production systems can be financed and developed for the future to reduce the waste of rural farm labor, capital and management resources in existing dairy production areas and restrain long-term increases in farm and retail dairy product prices. Likewise, it can provide applied research based farm data useful in national dairy resource adjustments, and hopefully for reducing federal government dairy surplus storage and costs.

Production and Marketing Adjustments in Order #4

Maryland milk producers increased milk marketing with Federal Order #4 from 1,441 million pounds in 1980 to 1,471 million pounds in 1986. However, milk marketings from Pennsylvania rose from 3,080 million pounds to 3,863 million pounds during the 1980-86 period. Pennsylvania accounted for all of increase in Order #4 milk output from 5,644 million to 6,411 million pounds between 1980 and 1986. Maryland milk marketings declined from 25.5 percent of the 1980 Order #4 total to 22.9 percent of the 1986 Order #4 total volume of milk. Some Maryland producers in the 1970's and 1980's moved their businesses into Pennsylvania, Virginia and West Virginia, where real estate prices and farm labor costs were lower.

Maryland's total number of Federal Order #4 milk bases has declined from 1,675 farms in 1981-82 to 1,307 in 1987-88. This was 19 percent of the 6,886 farms with 1987-88 bases compared with 21.8 percent of the 7,696 Order #4 farms in 1981-82. Pennsylvania had 61.2 percent, or 4,707 farms, of the Order #4 bases in 1981-82 compared with 67.3 percent, or 4,633 farms, in the 1987-88 milk marketing bases.

Maryland shippers were able to maintain total volume of marketings into Federal Order #4 by increasing the average annual volume of milk shipped from 860 thousand pounds in 1980 to 1,126 thousand pounds in 1986. During the 1981-86 period, the average volume of milk sold per farm in Order #4 rose from 733 thousand pounds per year to 931 thousand pounds annually in 1986. So Maryland milk shippers were larger than the Order #4 average in both years, by 127,000 pounds in 1980 and by 195,000 pounds in 1986. The average Maryland shipper increased marketings by 266,000 pounds between 1980 and 1986. Average annual milk produced per cow rose from 12,063 pounds in Maryland in 1980 to 13,675 pounds per cow in 1985. This was a rise of 1,612 pounds per milk cow in 5 years, or 322 pounds per year per cow. In spite of a severe drought in Maryland in 1986, Maryland dairy farmers have used low priced feed grains and protein suplplements to reduce total ration cost per unit of feed fed in 1985 through 1987.

The 266,000 pounds increase per Maryland shipper came from an increase of an average of seven cows added per herd and over 1,600 additional pounds of milk shipped per cow. Therefore, 61 percent of the increase resulted from higher milk volume per cow, and 39 percent came from the addition of more cows in the milking herd.

Most of the milk produced on Maryland farms is marketed through agricultural cooperatives and is priced within Federal Order #4. Gross farm income from all Maryland dairy products increased from $190.9 million in 1979 to $221.6 million in 1981 largely as a result of higher average returns per cwt. of milk marketed from $12.65 to $14.30 per cent between 1979 and 1981. Since 1981, Maryland average milk prices have declined to $13.10 per cwt. in 1985 and $12.66 per cwt. in 1986 and 1987. The rise in total Maryland milk marketed from 1,544 million pounds in 1981 to 1,668 million pounds in 1985 was not enough to fully offset the drop in average prices. The gross farm income dropped slightly from $221.6 million to $219.3 million in 1985. A further gross income decline occurred in 1986 and early 1987.

The long-term shift from owned crop and pasture land to rented crop and pasture land has increased the risks and vulnerability to economic changes of the Maryland milk production sector. The average value of land and buildings per farm in Maryland dropped from $389.2 thousand in February 1981 to $269.2 in 1987. In general, valuation declines were greater on the Eastern Shore than on the Western Shore of Maryland. This difference resulted from fewer urban and suburban development pressures on the Eastern Shore as well as greater dependence on cash cropping land for corn and soybeans.

Maryland dairy farmers have increased the numbers of larger herds and volumes of milk shipped daily. In 1981-82, a total of 131 Maryland farms had milk bases of 5,000 pounds or more daily and 38 farms had over 7,500 pounds. At the same time, Pennsylvania dairy farmers in Order #4 reported 129 farms with 5,000 or more pounds of milk shipped daily and 26 farms with 7,500 or more pounds of milk sold daily. By the 1987-88 base year, 197 Maryland farmers had bases of 5,000 or more pounds daily and 64 farms reported 7,500 pounds more daily. Pennsylvania dairy farms with 5,000 pounds or more milk per day had increased to 293 farms with 67 of these farms reporting bases of 7,500 more pounds daily. So Pennsylvania has increased the number of large shippers in Federal Milk Marketing Order #4 faster than has Maryland over the past six years 1981-82 to 1987-88.

The four Pennsylvania counties that lie north of the Maryland Mason-Dixon Line, namely, Lancaster, Franklin, York and Adams, have increased milk volume sold and value of production more than the major Maryland counties ranging from Cecil, Harford and Baltimore Counties to Carroll, Frederick and Washington Counties. The milk diversion program and the dairy buyout program of the U.S. government have had more impact in Maryland than in neighboring areas of Pennsylvania.

Numbers of milk producers have declined in all Maryland counties since May 1981 according to annual reports of Federal Order #4. In recent years, Frederick, Carroll and Washington counties have accounted for nearly two-thirds of Maryland's milk production going into Federal Order #4 and nearly two-thirds of the number of milk shippers. The Pennsylvania dairy farms located in the four counties north of the Maryland line have increased milk output even though farms with dairy herds and milk bases have declined during the 1980's except for

Lancaster County, Pennsylvania.

Maryland dairy farmers increased efficiency of use of biological capital (higher milk produced per cow in the herd) and human labor and management resources. More milk sold per worker resulted from higher milk output per cow (15,000 lbs. up to 16,300 lbs. between 1984 and 1986) and higher numbers of milk cows handled per worker. The farms with 150 or more cows averaged 178 milk cows per farm and used 5.2 man-equivalent of labor and management to handle the crop and livestock production activities. Milk per cow averaged about the same (16,900 lbs. per cow in 1986) on farms with fewer than 100 cows as on the larger farms. Therefore, one can conclude that the increased output of milk per worker annually resulted from the larger number of cows handled per man employed on the farm. The larger herds were not only more efficient in the use of labor and management with the cow herd but also with crop production. The farms with 150 or more cows reported an average of 588 thousand pounds of milk sold per worker with an average of 35 cows per man and 131 crop acres per man compared with 84 acres of crops on farms with under 100 cows. In addition, the larger herds with higher volumes of milk marketed, attained lower milk marketing and handling costs than the smaller herds and farms in 1984 through 1986.

Farms in Maryland which shipped milk in both 1984 and 1986 reported larger crop land areas for feed crop production to support the larger herds. Milk per man was substantially higher on the average for farms with 2.0 million pounds of milk sold annually. However, all milk output groups increased milk produced and sold per man between 1984 and 1986 as the all size of business average increased from 464,000 to 517,000 pounds of milk per man. The farms studied with 40 or more cows handled per worker averaged 684,000 pounds of milk per man in 1986.

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APPENDIX

Table 1. Volume of Order # 4 Annual Milk Production by State of Origin 1980 & 1981 and 1985 & 1986.

State of Origin	1980	1981	1985	1986
	- - - - - - - - -	(000,000 lb.)	- - - - - - -	
Pennslyvania	3,080	3,328	3,678	3,863
Maryland	1,441	1,474	1,481	1,471
Virginia	703	712	700	686
New Jersey	175	179	159	162
West Virginia	119	121	121	119
Delaware	115	114	104	110
New York	10	18	0	0
Total	5,644	5,947	6,244	6,411

Source: Federal Order No. 4, Annual Statistical Report, 1981 & 1986

Table 2. Number of Bases for Milk Sales, Federal Order 4 1981-1988

State	1981-82	1982-83	1986-87	1987-88
Pennslyvania	4,707	4,679	4,606	4,633
Maryland	1,675	1,649	1,403	1,307
Virginia	741	751	640	640
New Jersey	191	186	140	130
West Virginia	127	123	109	98
Delaware	188	185	86	78
New York	67	33	-	-
Total	7,696	7,606	6,984	6,886

Source: Federal Milk Marketing Order No. 4, Annual Statistical Report, 1981 and 1986.

Table 3. Average Amount of Milk Shipped Per Farm, by State of Origin, Selected Years, 1980-1986.

State of Origin	1980	1981	1985	1986
	------- (000 pounds of milk) -------			
Pennslyvania	654.3	711.3	798.5	833.8
Maryland	860.3	893.9	1,055.6	1,125.5
Virginia	1,000.0	948.1	1,093.8	1,071.9
New Jersey	916.2	962.4	1,135.7	1,246.2
West Virginia	937.0	983.7	1,110.1	1,214.3
Delaware	611.7	616.2	1,209.3	1,410.3
New York	149.2	545.5	0	0
Total Order #4	733.4	781.9	894.0	931.0

Source: Federal Order No. 4, Annual Statistical Reports, 1981 & 1986

Table 4. Chances in Numbers and Sizes of Milk Production Bases in Federal Order No. 4, MD & PA, Selected Years, 1981-82 to 1987-88

Pounds of Milk Base (daily)	Maryland				Pennslyvania			
	1981-82	1982-83	1986-87	1987-88	1981-82	1982-83	1986-87	1987-88
Under 2,000	923	876	574	514	3,245	3,068	2,590	2,505
2,000 - 4,999	621	635	650	596	1,333	1,464	1,765	1,835
5,000 - 7,499	93	102	118	133	103	112	194	226
7,500 - 9,999	25	21	43	44	15	23	36	43
10,000 or more	13	15	18	20	11	12	21	24
Total Bases	1,675	1,649	1,403	1,307	4,707	4,679	4,606	4,633

Source: Federal Milk Marketing Order No. 4, Annual Statistical Report, 1981 & 1986.

Table 5. Value of Order No. 4. Milk Production at Order Prices by Selected States and Counties

	1980		1981		1985		1986	
	Prod[1]	Value[2]	Prod	Value	Prod	Value	Prod	Value
MARYLAND								
Frederick	422.0	$ 55.7	433.7	$ 60.5	465.3	$ 60.0	460.6	$ 58.3
Carroll	249.4	32.9	257.0	35.8	249.8	32.2	253.5	32.1
Washington	202.8	26.8	203.5	28.4	220.1	28.4	222.0	28.1
Harford	104.5	13.8	104.0	14.5	97.8	12.6	97.4	12.3
Cecil	71.5	9.4	77.9	10.9	70.8	9.1	66.4	8.4
Montgomery	74.8	9.9	70.7	9.9	63.1	8.1	55.1	7.0
Kent	58.8	7.8	66.0	9.2	68.7	8.9	67.1	8.5
Garrett	20.9	2.8	19.4	2.7	14.9	1.9	17.9	2.3
TOTAL	1,441.4	$190.3	1,471.3	$205.2	1,481.9	$191.0	1,473.0	$186.5
PENNSYLVANIA								
Lancaster	760.7	$100.4	786.3	$109.7	849.5	$109.5	905.6	$114.6
Franklin	351.3	46.4	396.0	55.2	452.2	58.3	471.8	59.7
York	165.3	21.8	173.1	24.2	184.6	23.8	187.8	23.8
Adams	102.9	13.6	115.1	16.1	115.9	14.9	123.4	15.6
TOTAL	3,079.6	$406.5	3,330.6	$464.6	3,677.6	$474.0	3,866.5	$489.5
TOTAL (ORDER #4)	5,644.0	$745.0	5,947.0	$829.6	6.418.0	$812.5	6,243.2	$804.8

[1] Production expressed in millions of pounds.
[2] Value expressed in millions of dollars.

Source: Federal Milk Market Order #4, Annual Statistical Report, 1981 and 1982.

Table 6. Changes in No. of Milk Shippers and Pounds of Milk Shipped, Selected Counties, Md., Pa., May 1981, May 1986, and Dec 1986.

State and County	Total No. of Milk Producers			Total Monthly Milk Output		
	May 1981	May 1986	Dec. 1986	May 1981	May 1986	Dec. 1986
				- 000,000 pounds of milk -		
MARYLAND:						
Frederick	429	358	339	39.5	42.4	37.8
Carroll	294	268	222	23.8	23.2	20.3
Washington	274	244	244	18.7	19.8	18.7
Harford	137	111	98	9.5	8.8	8.0
Cecil	81	66	61	6.5	6.2	5.6
Montgomery	53	41	35	6.3	5.2	4.0
Kent	64	51	47	5.8	6.1	5.2
Garrett	49	26	28	1.8	1.4	1.6
TOTAL	1,641	1,340	1,262	133.4	134.6	119.7
PENNSYLVANIA:						
Lancaster	1,143	1,074	1,223	72.3	79.4	83.6
Franklin	435	429	419	35.6	41.9	40.0
York	244	219	208	15.6	16.7	15.7
Adams	142	136	127	9.6	11.0	10.6
TOTAL	4,704	4,433	4,524	302.9	343.5	334.4

Source: Federal Milk Order No.4, Annual Statistical Report, 1981 and 1986.

Table 7. Range of Order Number 4 Daily Producer Bases, By State, Maryland and Pennsylvania, 1981-85.

Base Size Category (pounds)	1981-82	1982-83	1986-87	1987-88
MARYLAND				
1 - 499	109	109	59	77
500 - 999	255	237	139	117
1,000 - 1,499	308	278	180	159
1,500 - 1,999	251	252	196	161
2,000 - 2,499	199	208	174	171
2,500 - 2,999	180	141	172	146
3,000 - 3,499	107	108	113	111
3,500 - 3,999	76	86	83	70
4,000 - 4,499	59	46	62	49
4,500 - 4,999	40	46	46	49
5,000 - 5,499	31	36	35	51
5,500 - 5,999	28	25	30	23
6,000 - 6,499	15	26	23	19
6,500 - 6,999	14	7	20	22
7,000 - 7,499	5	8	10	18
7,500 - 9,999	25	21	43	44
10,000 -14,999	7	9	10	12
15,000 -65,000	6	6	8	8
TOTAL	1,675	1,649	1,403	1,307
PENNSYLVANIA				
1 - 499	313	367	232	173
500 - 999	758	643	520	441
1,000 - 1,499	1,234	1,120	913	944
1,500 - 1,999	940	938	925	947
2,000 - 2,499	537	615	655	684
2,500 - 2,999	325	325	421	443
3,000 - 3,499	192	203	265	272
3,500 - 3,999	134	153	194	196
4,000 - 4,499	86	91	131	128
4,500 - 4,999	59	77	99	112
5,000 - 5,499	34	33	69	76
5,500 - 5,999	24	27	45	60
6,000 - 6,499	17	26	34	39
6,500 - 6,999	21	10	34	28
7,000 - 7,499	7	16	12	23
7,500 - 9,999	15	23	36	43
10,000 -14,999	8	7	12	15
15,000 -65,000	3	5	9	9
TOTAL	4,707	4,679	4,606	4,633

LARGER DAIRY FARMS USE LABOR RESOURCES MORE PRODUCTIVELY

Numbers of cows per farm generally tend to increase faster than the size of labor force as dairy farms expand. This relationship showed that the farms in this study with under 70 cows (an average of 58 cows) in 1986 used an average of 2.5 man-equivalent per farm to handle an average of 24 cows per man. The next larger herd size (70-99 cows) with 85 cows per herd only increased man-equivalent to 2.8 men per farm so a major increase occurred to an average of 33 cows per man (Table 8).

With the 1986 milk per cow average at nearly 17,000 pounds for both groups of farms, a 150,000 pound increase occurred in milk produced per man. The smaller herd group had an average of 416,000 pounds of milk per man compared with an average of 566,000 pounds per man for the farms with 70-99 cows and 517,000 pounds per man on all farms studied.

As herd size increased to an average of 120 cows per farm in 1986, labor force only increased by 0.5 man-equivalent to 3.3 man-equivalent, and cows per man expanded to an average of 38 cows per worker. However, the increased cows per worker were offset by lower levels of milk produced per cow to an average of 14.7 thousand pounds per cow. This meant the average milk produced per full-time worker dropped slightly from 566 thousand to 555 thousand pounds.

The group of farms with more than 150 cows handled an average of 178 cows with an average 5.2 man-equivalent labor force. Therefore, cows per man declined slightly to 35 cows, but milk produced per cow increased to the 16.9 thousand pound per cow level and milk produced per worker reached a new higher average level of 588 thousand pounds per man.

Crop acres per man were higher on the average for the largest dairy farms which ranged from 160 to 209 milk cows per farm. All dairy farms averaged 93 crop acres per worker but the larger farms averaged 131 crop acres per man compared with 87 crop acres per man on the smaller farms.

Table 8. Relationship of Cows per farm to Labor Requirements, Cows per man milk per man and crops acres per man

(28 Maryland Case Study Dairy Farms, 1984-86)

Cows per farm	Avg. no. cows 86	No. of farms	Labor in per man 86	Cows per man 86	Milk per cow 86	Milk per man 86	Crop acres per man 86
Under 70	58	9	2.5	24	17.0	416	87
70 - 99	85	8	2.8	33	16.9	566	80
100 - 149	120	8	3.3	38	14.7	555	97
150 or more	178	3	5.2	35	16.9	588	131
All farms	96	28	3.1	32	16.3	517	93

Higher Milk Per Cow and More Milk Cows Handled Increased Volume of Milk Output Per Farm and Per Worker

Maryland dairy farmers expanded milk production per farm in 1984 by adding more cows and increasing milk produced per cow during the two-year period of this study. Dairy farms with less than one million pounds of milk produced in 1984 had an average output of 788 thousand pounds. By 1986, they had increased total milk output to 1,009 thousand pounds from adding an average of 7 cows per herd to reach 60 cows per herd on the average. They increased milk produced per man from an average of 316 thousand to 404 thousand pounds per man. However, this level of productivity per worker was still below both the 1984 all farm average of 464 thousand pounds per man and the 1986 all farm average of 517 thousand pounds of milk per man (Table 9).

The largest milk output farms in 1984 with 2.704 millions pounds only increased total output to an average of 2.746 million pounds in 1986. Cows per farm averaged 162 cows in both years so the net production increase came from higher average production of milk per cow. This largest group of farms increased their crop land base from 502 acres to 602 acres per farm. They averaged 3.3 crop acres per cow in 1986. Milk per man averaged 587 thousand pounds in 1986 compared with 561 thousand pounds per man in 1984 on the largest farms with over two million pounds of milk output. Some of the high milk output farms also typically sold some grain and forage crops.

The group of 16 farms with from one to two million pounds of milk produced annually per farm increased average cows par farm by 5 cows to 98 cows per farm in 1986. They increased average crop acres by 12 acres to 256 crop acres per farm. They increased both milk cows and production per cow to raise average labor productivity from 513 thousand pounds per man in 1984 to 556 thousand pounds per man in 1986.

Table 9. Relationship of Milk Production Per Farm in 1984 to 1986 Milk Production per Farm, Cows per Farm, Milk per Man and Crop Acres per Farm

(28 Maryland Case Study Dairy Farms, 1984-86)

Milk for 84	Avg. milk prod 86	Milk prod for 86	No. of farms	Cows per farm 84	Cows per farm 86	Milk per man 84	Milk per man 86	Crop per farm 84	Crop per farm 86
	----000 lbs-----					--000 lbs--			
Under 1 million lbs.	788	1,009	8	53	60	316	404	206	207
1.0 to 1.99 million lbs.	1,371	1,521	16	93	98	513	556	244	256
2 or more million lbs.	2,704	2,746	4	162	162	561	587	502	602
All farms	1,395	1,550	28	91	96	464	517	270	292

High Cows per Worker Essential to Attain High Productivity in Terms of Milk Produced per Man

Farms were sorted and analyzed by cows per man factor as the independent variable to demonstrate the typical relationship, both over time and cross-sectionally, that higher average milk produced per man is closely related to the increase in average cows per man. Farms with under 30 milk cows per man averaged 22 cows per man with 16.3 thousand pounds of milk per cow and 366 thousand pounds of milk per man in 1986. Farms with 30 to 39 cows handled per man averaged 17.0 thousand pounds of milk per cow and an average of 577 thousand pounds of milk per man. The six highest labor intensity farms with 40 or more cows averaged 45 cows per man with an average of 15.2 thousand pounds of milk per cow and 684 thousand pounds of milk annually per man. Milk produced per cow averaged 16.3 thousand pounds in 1986 for all the case study farms. Even with slightly lower average milk output per cow, the highest farms in terms of cows per man showed the highest average milk produced per man (Table 10).

Crop acres per man 1986 were not closely related to cows per man in 1986. The all farm average was 93 crop acres per man in 1986. In general, farms with the high levels of cows per man of over 40 cows tended to have similar average crop acres per man of 75 acres compared with 72 acres on farms with labor resource use intensities of under 30 cows per man.

Farms sorted by average milk per man showed that the farms with 600,000 or more of milk produced per man averaged 709 thousand pounds per man in 1986 (Table 11). Milk produced per cow on these farms was an average of 17,200 pounds compared with the all farm average of 16,300 pounds per cow in 1986. Cows per man averaged 42 cows compared with 32 cows per man for all farms which averaged 517 thousand pounds produced per man.

Table 10. Relationship of Cows Handled Per Worker to Average Milk Produced Annually Per Cow and Milk Produced Per Workers

(28 Maryland Case Study Dairy Farms, 1984-86)

Cows per man 86	No. of farms	Avg. cows per man 86	Milk per cows 86	Milk per man 86	Crop acres per man 86	Crop acres per farm 86
Under 30	11	22	16.3	366	72	242
30 - 39	11	34	17.0	577	123	376
40 or more	6	45	15.2	684	75	228
All farms	28	32	16.3	517	93	292

Table 11. Relationship of Milk Produced Per Man to Number of Cows Per Man Milk Produced Per Cow, and Crop Acres Per Man

(28 Maryland Case Study Dairy Farms, 1984-86)

Milk per man 86	No. of Farms	Avg. lbs. milk per man 86	Milk per cow 86	Cows per man 86	Crop acres per man 86	Crop acres per farm 86
		---------- 000	---------			
Under 500,000 lbs.	10	349	16.1	22	70	236
500,000 to 599,999	11	547	16.0	35	114	376
600,000 or more	7	709	17.2	42	93	238
	28	517	16.3	32	93	292

Crop acres per man and crop acres per farm did not show any clearcut relationship when milk produced per man increased. However, there was a tendency to increase crop acres per man as well as milk produced per man up to the 600,000 pounds of milk level. At levels above 600,000 pounds of milk per man annually, crop acres were reduced back to the all farm group average of 93 crop acres per man while cows per man increased from 35 to 42 cows and milk produced per cow rose from 16,000 to 17,200 pounds per cow.

Large Farm Labor Inputs Do Not Guarantee Good Labor Productivity But Larger Dairy Farms Do Generate Important Internal and External Economies and Lower Production Costs Per Unit of Output

Maryland dairy farms were sorted by size of labor force to study what happened on farms that used smaller labor forces versus those that used four to six workers. The dairy farms with under 3.0 man-equivalent were slightly more efficient on the average in their use of on-farm labor inputs than the larger farms. These farms averaged 34 cows per man compared with only 29 cows per man on the farms with 4.0 or more man-equivalent of labor (Table 12).

Table 12. Relationship of Labor Force Size to Size of Milk Cow Herd, Crop Acres per Farm, Crop Acres per Man, Cows per Man and Milk per Man

(28 Maryland Case Study Dairy Farms, 1984-86)

Labor ME/ farm 86	No. of farms	Avg. ME per farm 86	Avg. cows per farm	Avg. cows per man 86	Milk per man 86	Crop acres per man 86	Crop acres per farm
					(000 lbs)		
Under 3.0	12	2.2	72	34	564	88	186
3.0 - 3.9	10	3.2	100	31	496	96	306
4.0 or more	6	4.8	138	29	458	100	458
All farms (1.8 to 6.0 ME)	28	3.1	96	32	517	93	292

However, the large labor force farms tended to have higher average crop acres per man employed than the small labor force farms. This probably reflects the fact that young farm families frequently find access to land ownership or rental harder to establish than middle-aged or older families with more business assets and equity or net worth. The larger labor force farms had more flexibility in scheduling work activities and time off for rest and relaxation. Also, the larger dairy farms in terms of labor force, numbers of cows and volume of milk marketed generally have lower costs per dollar of milk, cull beef and veal, and crop sales as well as labor costs, and for purchased productive inputs per dollar of expenditure. The typical modern Maryland dairy farm in this study used slightly more than three full-time worker-equivalent so more than three workers full and/or part-time were involved in business indirect work activities.

PEP/dlw/10-26-87

STATEMENT OF
WALTER A. MARTZ
ASSISTANT SECRETARY/TREASURER
NATIONAL MILK PRODUCERS FEDERATION

PRESENTED TO

SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
U.S. HOUSE COMMITTEE ON AGRICULTURE
WESTMINSTER, MARYLAND
NOVEMBER 2, 1987

Mr. Chairman and Members of the subcommittee:

I am Walter Martz, a dairy farmer from Frederick, Maryland. I serve as Assistant Secretary/ Treasurer of the National Milk Producers Federation, and President of Maryland and Virginia Milk Producers Cooperative Association. I am also a member of the National Dairy Promotion and Research Board.

I appreciate this opportunity to appear before the subcommittee and I would like to commend you, Congresswoman Byron, for your efforts in bringing the subcommittee to Maryland so that producers here can present their views on current farm programs to the Congress. We have been pleased with your responsiveness to our concerns to date and we look forward to working with you on issues before the U. S. House of Representatives in the future.

My intention here today is to focus on how the 1985 farm bill has affected the dairy industry nationally and what the

outlook is for the near term.

As the national commodity organization representing America's dairy farmers, we have been involved in every phase of the Dairy Termination Program: from its formulation before this subcommittee in 1985, to its initial implementation by the U.S. Department of Agriculture in 1986, through the monitoring of the program's impact on the dairy industry and other agricultural commodities from its beginning nearly 18 months ago to the final days of the program today.

While I don't want to dwell on past history, it is gratifying to be able to commend the subcommittee for its role in establishing what we believe are the positive dairy provisions of the Food Security Act of 1985. Those of you who served in the 99th Congress will recall that we were initially concerned that a Dairy Termination Program, or whole herd buyout as it was referred to at the time, by and of itself would not prove adequate to correct the supply/demand imbalance in the dairy industry; an imbalance which we sought to resolve.

We had advocated a more comprehensive and permanent approach to achieving and maintaining a balance between production and consumption to sharply curtail government dairy program outlays while protecting dairy farm income. The compromise agreement which ultimately emerged from the House-Senate farm bill conference committee contained price cuts which we found objectionable, not because they would reduce the milk support

price but because of their arbitrary and subjective nature. I will address that subject later in my remarks.

The conference agreement contained an 18 month program designed to provide payments, partially funded by dairy farmers, to those milk producers who would contractually agree to stop producing milk and remain out of dairying for a period of three, four or five years, at the discretion of the Secretary of Agriculture. Additionally, the program contained a red meat purchase program to minimize the impact of the additional dairy beef on the nation's red meat markets.

We have just completed this 18 month program, under which nearly 14,000 dairy farmers have opted to quit dairying for at least the five year period established by USDA. We expect very few of those producers to return to milk production at the end of the contract period.

The results of this program are heartening, and much of the credit for that fact goes to this panel. A great deal of work was done by members of both the House and Senate Agriculture Committees in formulating the numerous provision of the 1985 farm bill. After a long, and many times contentious, debate the commodity provisions for the next several years were established by the Congress. As we look at the nation's agricultural situation today, we are pleased with the tremendous accomplishments evident in the dairy program. No commodity program in the entire farm bill can show the progress in terms of

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both surplus reduction and government cost savings that we have seen in the dairy program. It is an enviable record and one which deserves greater attention, both as a tribute to Congress and to the hard work and sacrifice of the nation's dairy farmers in making the program a success.

Let me briefly review the results to date in order to give the subcommittee a more complete picture of the current dairy situation. Since the inception of the DTP milk production has dropped below year earlier levels every month. During fiscal year 1987, milk production dropped 2.5 percent below fiscal year 1986. Milk cow numbers are six percent below a year earlier and are at the lowest levels on record.

With milk production declining and the dairy farmer funded milk promotion efforts helping to boost consumption, dairy program purchases by the CCC, on a milk equivalent basis, have dropped dramatically. After reaching 13.2 billion pounds--or about nine percent of total production--in calendar year 1985, government purchases dropped to 10.6 billion pounds in calendar year 1986, during the initial stages of the DTP. That reflects a 19 percent drop in purchases in one year.

Now that the DTP has run its course, the results are even more dramatic. During FY 1987, USDA purchased just 5.4 billion pounds, more than a fifty percent reduction from the 12.3 billion pounds purchased during FY 1986.

On an individual product basis, in FY 87 butter purchases

were down 56 percent, nonfat dry milk purchases dropped 42 percent and cheese purchases fell 56 percent from the previous year.

These dramatic reductions in dairy program purchases translate into substantial reductions in the cost of the dairy price support program. Fiscal year 1986 dairy program costs totaled $2.4 billion. For fiscal year 1987, total program costs were about $1.2 billion, making the dairy program one of the few commodity programs to fall within its budget baseline. We expect the program savings to continue into next fiscal year as well, with program costs projected below the FY87 level.

To gain a greater appreciation for the success of this program it is necessary to look at the alternative program which was advocated by the Administration and others, including, unfortunately, some agricultural groups. Without the DTP and with the price cuts which were proposed as the major alternative to this program, milk production today would be higher, government dairy stocks would be higher and program costs today would be higher. In 1987 alone, we project that CCC purchases in the absence of the DTP would total 14.3 billion pounds; with the DTP we believe they will be around 5.0 billion pounds. Even accounting for the lower support price which would have been in effect under the alternative program, we project government costs with the DTP will be more than $1 billion lower than they would have been had Congress adopted the price cut approach sought by

some. A more complete review of the comparison between the DTP approach and the price cut approach is contained in Attachment #1.

Red Meat Purchases

Beyond the tremendous gains in the dairy situation that have been made with the assistance of the DTP, the program has additionally provided substantial aid to the nation's cattle producers, largely through the foresight of the subcommittee in providing for the purchase of over 400 million pounds of red meat by the government to offset additional meat coming onto the market as a result of the DTP.

Unfortunately the DTP became a scapegoat for some groups to attack when cattle prices dropped somewhat at the beginning of the program. These attacks were made despite the fact that cattle prices were simply following their seasonal decline (Attachment #2) and were in a fundamentally weak position at the time the DTP went into effect. Once it became clear that the negative psychological reaction to the increased cow culling from the DTP was unwarranted, market prices quickly stabilized and have in fact dramatically increased during the months of the DTP. Steer and heifer prices in September,1987 were at their highest level since 1980. I only wish that those who were so quick to attack the DTP as responsible for initial market price drops would acknowledge the program's positive impact on meat prices.

To date, USDA has purchased 438 million pounds of red meat under the program. Additionally, about 65,700 head of dairy cattle, representing the equivalent of about 25 million pounds of meat, have been exported under the DTP. It is important to keep in mind that the total dairy cows contracted under the DTP represent an estimated 519.3 million pounds of red meat (Attachment #3). Thus, the red meat purchase subsidy program effectively removes more than eighty percent of the total meat of the DTP animals and has in fact provided a substantial boost to red meat market prices.

Dairy Situation Today

While we are pleased with the positive results of the Dairy Termination Program, there is nonetheless great concern among many dairy farmers over the possibility of further erosion in milk support prices as a result of the CCC trigger levels established in the 1985 farm bill. Despite the excellent results to date, we are concerned that there may be a reduction in the support price of $.50 per hundredweight on January 1, 1988, which would lower the support price to $10.60, if USDA projects CCC purchases in 1988 in excess of five billion pounds milk equivalent. Our projections indicate that surplus removals will be near the five billion pound mark for 1988, but unfortunately there is no objective mechanism to deal with the trigger. If USDA reduces the support price and removals turn out

to be less than five billion pounds for the calendar year, the department will simply claim that removals were lower because of the price cut.

As I noted earlier, we question the imposition of an arbitrary and static target of five billion pounds milk equivalent for dairy program purchases upon a dynamic industry. The five billion pound target for Commodity Credit Corporation removals was initially established in the early 1980s, when annual milk production was about 135 billion pounds and consumption was about 121 billion pounds. The 12.8 billion pounds of milk purchased by USDA under the price support program in 1981 equaled just under ten percent of total U.S. milk production.

For calendar year 1987, milk production is likely to total 142.5 billion pounds and we project commercial use will total about 137 billion pounds. The key point is that in a growing industry, the five billion pound milk equivalent target represents a smaller amount of total production. Thus, in 1987, USDA is expected to purchase roughly 3.5-4.0 percent of the nation's total milk production to support farm milk prices.

That is a dramatic reduction in both real and percentage terms, reducing CCC removals to their lowest levels in nearly a decade. But still, dairy farmers face the very serious prospect of a reduction in milk prices, even though it is clear that USDA will not have sufficient stocks of dairy products in CCC

inventories to meet its various Congressional mandates for domestic and foreign dairy product obligations. Recently, USDA rejected an opportunity to sell dairy stocks to India, claiming that no product was available. At present, many state food distribution coordinators are voicing concern that they will not receive enough dairy products from USDA during fiscal year 1988 to meet their local needs under the Temporary Emergency Food Assistance Program (TEFAP). Frankly, it is difficult to comprehend the possibility of a further reduction in farm milk prices at the same time USDA is unable to provide dairy products for its programs.

We do not believe further price cuts are needed at the present time. Because of our concern, we are exploring possible ways to provide even greater assurance that CCC removals will be below five billion pounds in 1988, thereby eliminating the possibility of a price cut on January 1, 1988.

One proposal which our members support is increasing national milk promotion expenditures to commercially market even more milk to get us under the five billion pound trigger and eliminate the authority for the potential price cut. The Senate Agriculture Committee's reconciliation package contains language along these lines which would be an improvement over the current situation.

DTP Program Compliance Audit

We are generally pleased with the findings of USDA's Office of Inspector General in its audit of compliance with the Dairy Termination Program regulations. The extensive field audit and review by OIG found that USDA's Agricultural Stabilization and Conservation Service generally developed and implemented effective procedures and/or controls over the bid and contract acceptance process, and complied with the provisions of the Food Security Act of 1985. Additionally, OIG pointed out, in most areas where program control problems were pointed out, ASCS took prompt and positive actions to issue additional procedures addressing the conditions noted.

One of the reasons the program has worked so well is because of the dogged efforts of the nation's dairy farmers to make sure it works. Dairy farmers paid approximately $700 million of the program's cost in the form of assessments on all milk marketed and they are keenly interested in seeing the program succeed in reducing milk production and government program costs. We have been contacted on several occasions by our members expressing concern about possible program violations in their area. In virtually every case we have contacted ASCS personnel in the Washington office and they have been responsive to our contacts.

In summary, Mr. Chairman and Members of the subcommittee, we

believe the Dairy Termination Program worked well in reducing surplus milk production and providing some financial assistance to those dairy farmers who contracted to eliminate their production under the program.

We are pleased that, to date, the dairy program has worked better than perhaps any other commodity program in the 1985 farm bill. The dramatic budgetary savings we have achieved in a very short period have contributed greatly to reducing the deficit, especially at a time of rising farm program costs in other commodities.

But we do harbor a great deal of trepidation over the possibility of what we consider unwarranted price support reductions at a time when milk production and consumption are in near balance and the federal government is expected to be short of dairy products for its various program uses. We hope we can work with this subcommittee in the coming days to address these issues in a manner of fairness and equity to the nation's dairy farmers.

Thank you for this opportunity to present my views here today. I would be happy to respond to any questions.

(Attachments follow:)

Attachment #1

EFFECT OF THE DAIRY TERMINATION PROGRAM ON MILK PRODUCTION, PRICES, AND CCC NET REMOVALS 1986-1988

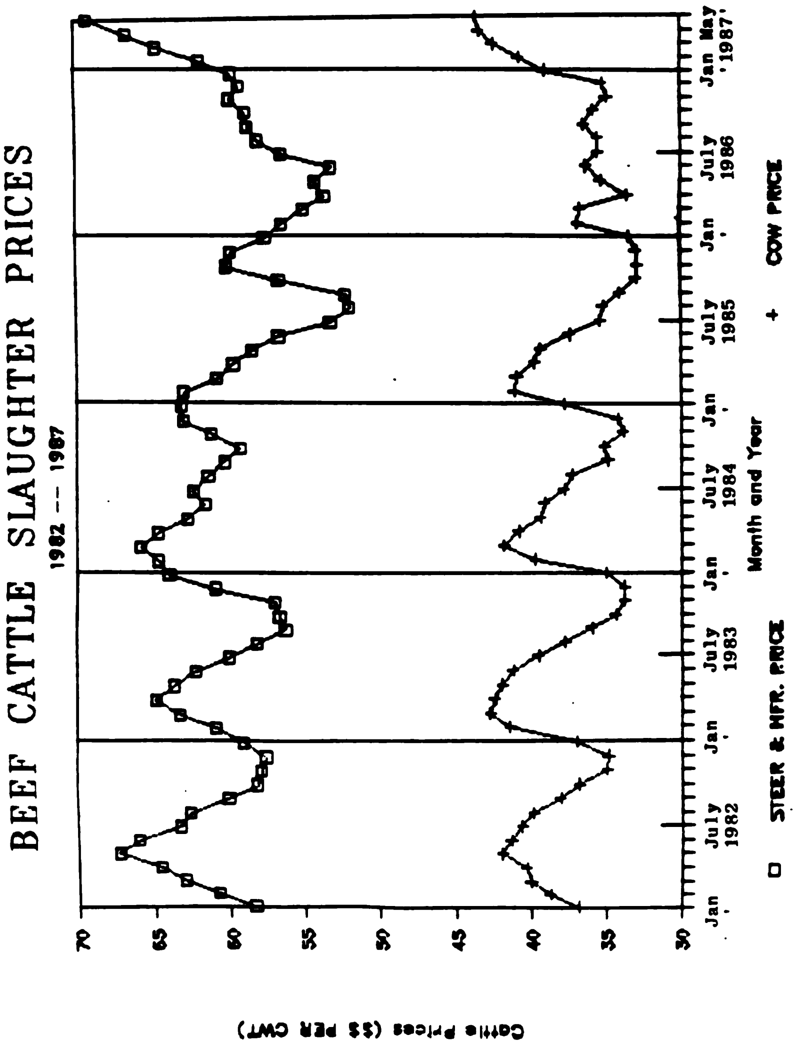
			WITH DTP		WITHOUT DTP		
Calendar Year	1985	1986	1987	1988	1986	1987	1988
	-BILLION	POUNDS	- - -	BILLION	POUNDS-		
Support Price (FB85):	$11.98	$11.60	$11.29	$10.60	$11.10	$10.60	$10.10
Milk Production [1]	143.7	144.1	142.8	145.9	147.8 **	152.2 **	155.2 **
Net Dairy Outlays [2]	$2,140	$2,050	$990	$910	$1,700	$1,790	$1,400
Difference in Cost From DTP Program:	--	--	--	--	($350)	$800	$490
M-W Manufacturing Price	$11.80	$11.58	$11.20	$11.50	$10.90	$10.45	$10.00
All Milk Price ($/cwt):	$12.75	$12.48	$12.10	$12.40	$11.80	$11.35	$10.90
- Assessment (Average)	$0.13	$0.36	$0.19	$0.00	$0.06	$0.00	$0.00
Net All Milk Price (FB):	$12.62	$12.12	$11.91	$12.40	$11.74	$11.35	$10.90
Difference in Price From DTP Program:	--	--	--	--	($0.38)	($0.56)	($1.50)

[1] Milk production numbers for 1985 and 1986 are actual figures. 1987 projections are calculated from USDA and NMPF Production estimates and account for DTP effects.

[2] Dairy Support Program costs include all receipts and expenses for the dairy program but does not include Rd Meat Purchasing Program costs.

Sources: ASCS and ERS, USDA.

Attachment #2



Attachment #3

RED MEAT PURCHASING PROGRAM
FINAL ANIMAL SALES AND MEAT PURCHASES

Age of Animal:	Estimated Total Animals Sold:	Estimated Total Pounds Meat Sold:
Cows:	909,000	416,322,000
Heifers:	302,000	67,950,000
Calves:	285,000	35,055,000

Estimated Total Pounds of Meat Sold:	519,327,000
Actual Red Meat Program Purchases:	438,270,000
Percent Of DTP Meat Sold purchased by the Government:	84%

ASCS Conversion Factors Used:

1 Cow Equals 458 Pounds of Red Meat
1 Heifer Equals 225 Pounds of Red Meat
1 Calf Equals 123 Pounds of Red Meat

Source: ASCS, USDA.

National Milk Producers Federation 10/21/87

STATEMENT OF JESSE BURALL

I AM JESSE BURALL, A DAIRY FARMER FROM FREDERICK COUNTY, MARYLAND. MY WIFE, CATHERINE, MY FOUR SONS, AND A DAUGHTER HAVE LIVED IN FREDERICK COUNTY ALL OF OUR LIVES. ONE OF OUR SONS CPERATES A FARM IN FREDERICK COUNTY, WHICH HE RENTS, AND ONE IS ACTIVELY ENGAGED IN FARMING WITH ME.

MY INTEREST AND INVOLVEMENT IN THE DAIRY BUSINESS AND AGRICULTURE INCLUDE THE FOLLOWING:

DIRECTOR, DAIRYMEN, INC., MIDDLE ATLANTIC DIVISION

PRESIDENT, DAIRY COUNCIL, UPPER CHESAPEAKE BAY DFNC

PAST PRESIDENT, NEW MARKET LIONS CLUB

PAST MASTER, NEW MARKET GRANGE

PAST MASTER, FREDERICK COUNTY POMONA GRANGE

LEGISLATIVE REPRESENTATIVE, MARYLAND STATE GRANGE

DIRECTOR AND PAST PRESIDENT, MARYLAND COUNCIL OF FARM COOPERATIVES

DIRECTOR AND EXECUTIVE COMMITTEE MEMBER, SOUTHEAST UNITED DAIRY INDUSTRY, ASSOCIATION

MEMBER, MARYLAND DAIRY PRINCESS COMMITTEE

MEMBER, FREDERICK COUNTY FARM BUREAU - AFFILIATE DIRECTOR

MEMBER, ADVISORY COUNCIL FOR VOCATIONAL EDUCATION IN FREDERICK COUNTY

OUR DAIRY OPERATION CONSISTS OF 250 ACRES OWNED, AND 250 ACRES OF LEASED LAND. THE HERD OF CATTLE CONSISTS OF 125 MILKING COWS AND APPROXIMATELY 85 HEAD OF HEIFERS IN VARYING AGES, WHICH WE RAISE FOR REPLACEMENTS.

CONGRESSIONAL HEARING TESTIMONY OF JESSE BURALL

BEFORE THE U.S. HOUSE OF REPRESENTATIVES
AGRICULTURAL COMMITTEE
NOVEMBER 2, 1987
WESTMINSTER, MARYLAND

THANK YOU, MR. CHAIRMAN. I AM JESSE BURALL, A DAIRY FARMER FROM MONROVIA, MARYLAND, AND I APPRECIATE THE OPPORTUNITY TO TESTIFY BEFORE THIS COMMITTEE ABOUT MY VIEWS ON DAIRY FARMER ADVERTISING, PROMOTION, AND EDUCATION EFFORTS AND THE EFFECTS OF THE WHOLE HERD BUY-OUT PROGRAM.

WITH CONGRESSIONAL PASSAGE OF THE 1983 DAIRY AND TOBACCO ADJUSTMENT ACT, A NEW ERA IN MILK ADVERTISING, PROMOTION, AND EDUCATION WAS INITIATED.

THIS LEGISLATION HAS HAD A MAJOR, POSITIVE IMPACT ON THE ENTIRE DAIRY INDUSTRY AS IT PROVIDED FUNDING FOR AN EFFECTIVE SALES AND CONSUMPTION BUILDING PROGRAM FOR MILK AND MILK PRODUCTS.

THE LEGISLATION WAS NEEDED TO UNIFY AMERICA'S DAIRY INDUSTRY AND ITS MANY PROMOTION EFFORTS. UNDER THE PROVISIONS OF THE LEGISLATION, ALL DAIRY FARMERS ACROSS THE UNITED STATES ARE NOW INVESTING IN AN EFFORT THAT WILL BENEFIT EVERYONE. ONE STRENGTH OF THE PROGRAM IS THAT WE ARE ALL INVESTING THE SAME RATE - 15 CENTS PER CWT. THE SPLIT OF THE ASSESSMENT, WITH 10 CENTS GOING TO QUALIFIED STATE OR REGIONAL PROMOTION ORGANIZATIONS, AND 5 CENTS GOING TO THE NATIONAL DAIRY PROMOTION AND RESEARCH BOARD (NDB), HAS BEEN AN EFFECTIVE MEANS OF SERVING THE LOCAL MARKET NEEDS AS WELL AS NATIONAL PRIORITIES OF THE U.S. DAIRY INDUSTRY.

THE TRUE MEASURE OF THE SUCCESS OF THE LEGISLATION AND OUR PROMOTION EFFORTS CAN BE SEEN IN SALES AND CONSUMPTION. MILK AND MILK PRODUCT CONSUMPTION FROM 1983 THROUGHT 1986 INCREASED APPROXIMATELY 10 PERCENT, THE LARGEST AND LONGEST SUSTAINED CONSUMPTION INCREASE EVER. LAST YEAR, CONSUMPTION OF DAIRY PRODUCTS ON A MILK-EQUIVALENT BASIS WAS ALMOST 600 POUNDS PER CAPITA, THE HIGHEST SINCE 1966. DURING THE FIRST QUARTER OF 1987, COMMERCIAL SALES OF MILK AND DAIRY PRODUCTS CONTINUED AT A STRONG PACE, WITH USE UP OVER 3.2 PERCENT FROM THE SALES PERIOD LAST YEAR.

IN OUR AREA OF THE COUNTRY, CLASS I SALES HAVE SHOWN SIGNIFICANT INCREASES SINCE OUR NEW ERA OF MILK PROMOTION BEGAN. IN 1984, SALES WERE UP 1.5 PERCENT, 1.3 PERCENT IN 1985, AND ANOTHER 2 PERCENT IN 1986. DURING THE FIRST QUARTER OF 1987, WE SAW A GAIN OF 1.5 PERCENT IN OUR CLASS I SALES. THIS REPRESENTS AN ADDITIONAL 24,551,949 POUNDS OF SALES OVER THE SAME PERIOD OF THE PREVIOUS YEAR. WE HAVE BEEN FORTUNATE TO HAVE CONSISTENTLY ACHIEVED GREATER SALES GAINS THAN ANY OTHER REGION OF THE COUNTRY. WE BELIEVE THIS IS DUE, IN PART, TO THE POPULATION SHIFT TO OUR REGION. HOWEVER, THIS ONLY ACCOUNTS FOR A PORTION OF OUR SALES GROWTH. WE SINCERELY BELIEVE THAT THE SALES GAINS EXPERIENCED BY THE DAIRY INDUSTRY NATIONALLY AND REGIONALLY ARE A DIRECT RESULT OF ADVERTISING, PROMOTION, AND EDUCATION PROGRAMS MADE POSSIBLE THROUGH THE 1983 DAIRY AND TOBACCO ACT.

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THERE IS ONE SHORTCOMING IN THE FEDERAL LEGISLATION. THE ORIGINAL INTENT WAS TO PROVIDE THE AMERICAN DAIRY FARMER WITH AN EFFECTIVE PROMOTION PROGRAM THAT WOULD CLOSELY COORDINATE THE NATIONAL DAIRY BOARD EFFORTS WITH THOSE OF THE EXISITING NATIONAL, STATE AND REGIONAL PROMOTION ORGANIZATIONS, THEREBY SPENDING DAIRY FARMER DOLLARS MORE EFFECTIVELY.

THE INDUSTRY HAS WORKED LONG AND HARD TO CONSOLIDATE EXISTING PROGRAMS AND ORGANIZATIONS WITH THE NEW NATIONAL DAIRY BOARD. HOWEVER, THIS HAS NOT BEEN ACHIEVED TO DATE. I AND OTHER DAIRY FARMERS ACROSS THE U.S. HAVE BEEN VERY CONCERNED WITH THE RECENT NEW DIRECTION TAKEN BY THE MEMBERS OF THE NATIONAL DAIRY BOARD TOWARD SEPARATE AND DUPLICATE PROGRAMMING.

OUR CONCERN HAS BEEN FORMALLY EXPRESSED THROUGH THE NATIONAL MILK PRODUCERS FEDERATION, WHICH HAS SUBMITTED AMENDMENTS TO THE DAIRY PROMOTION ORDER WITH SECRETARY OF AGRICULTURE, RICHARD E. LYNG. THE AMENDMENTS REQUIRE CREATION OF A SINGLE NATIONAL PROMOTION ENTITY WITH ONE PURPOSE, ONE STAFF, AND ONE BOARD OF DIRECTORS. I STRONGLY SUPPORT THESE AMENDMENTS AND WOULD ASK THAT YOU DIRECT YOUR EFFORTS TOWARD THEIR ADOPTION BY THE U.S. DEPARTMENT OF AGRICULTURE.

LIKE ANY NEW ENDEAVOR, IT TAKES TIME TO CONSOLIDATE AND COORDINATE EFFORTS. I AM VERY ENCOURAGED BY THE PROGRESS MADE TO DATE IN OUR MILK AND MILK PRODUCT PROMOTION EFFORTS. WE HAVE MADE SIGNIFICANT STRIDES IN GAINING CONSUMERS CONFIDENCE IN OUR INDUSTRY AND PRODUCTS. THE RESULT HAS BEEN INCREASED SALES AND CONSUMPTION, WHICH BENEFITS EVERYONE FROM THE DAIRY FARMER TO THE

CONSUMER. CONSOLIDATION OF OUR NATIONAL PROMOTION EFFORTS WOULD FURTHER ENHANCE OUR INVESTMENT IN MILK PROMOTION AND SOLIDIFY OUR SALES EFFORTS.

LET ME MAKE A FEW BRIEF COMMENTS ABOUT THE WHOLE HERD BUY-OUT, OR DAIRY TERMINATION PROGRAM. SINCE THE INCEPTION OF THE PROGRAM, MILK PRODUCTION HAS DROPPED FOR 12 CONSECUTIVE MONTHS THROUGH JUNE 1987 FROM THE PREVIOUS YEAR. WITH PRODUCTION DROPPING AND SALES INCREASING, DAIRY PRODUCT PURCHASES THROUGH THE COMMODITY CREDIT CORPORATION, ON A MILK EQUIVALENT BASIS, HAVE DROPPED DRAMATICALLY. IT IS PROJECTED THAT DAIRY PROGRAM COSTS WILL DROP FROM 2.3 BILLION DOLLARS IN FEDERAL FISCAL YEAR 1986 TO 1.1 BILLION IN FISCAL YEAR 1987. THIS MAKES THE DAIRY PROGRAM ONE OF THE FEW COMMODITY PROGRAMS TO FALL WITHIH ITS BUDGET BASELINE.

THE DAIRY TERMINATION PROGRAM WAS AN OBVIOUS SUCCESS AS IT HELPED BRING ABOUT A CLOSER BALANCE BETWEEN PRODUCTION AND DEMAND. I WOULD ALSO NOTE THAT IT WAS FUNDED BY DAIRY FARMERS THROUGH A DEDUCTION IN THEIR PAY PRICE. WHILE THE PROGRAM HAS ACHIEVED ITS GOALS, IT ALSO WAS TOO SUCCESSFUL IN SOME AREAS OF THE COUNTRY. IN THE SOUTHEAST, THE PROGRAM HAS LED TO A SEVERE SHORTAGE OF RAW MILK TO MEET CONSUMER NEEDS THIS FALL. DUE TO THIS SITUATION, I WOULD STRONGLY RECOMMEND THAT ANY NEED FOR FUTURE ENDEAVORS OF THIS NATURE BE MORE CLOSELY TARGETED TO THE LOCAL AND REGIONAL PRODUCTION AND CONSUMPTION NEEDS OF THE COUNTRY TO INSURE THAT THE TRUE INTENT OF THE PROGRAM IS MET.

FREDERICK COUNTY IS THE LARGEST DAIRY COUNTY IN THE STATE,

BOTH IN PRODUCTION AND IN COW NUMBERS. THIRTY-ONE FREDERICK COUNTY MILK PRODUCERS WERE ACCEPTED IN THE DAIRY TERMINATION PROGRAM. I BELIEVE WE HAVE LOST MORE PRODUCERS TO OTHER CAUSES, SUCH AS : LABOR PROBLEMS, HEALTH REASONS, OTHER EMPLOYMENT OPPORTUNITIES, AND ECONOMIC REASONS THAN WERE LOST TO THE WHOLE HERD BUY-OUT. I MENTION THIS BECAUSE I BELIEVE FREDERICK COUNTY TO BE TYPICAL OF MANY PARTS OF THE EASTERN MILK MARKET WHERE WE GENERALLY OPPOSE REDUCTIONS IN THE SUPPORT PRICE AND ASSESSEMENTS TO PAY FOR GOVERNMENT PROGRAMS.

CONCLUDING OBSERVATIONS AND RECOMMENDATIONS:

ONE OF THE KEY FACTORS TO CONTROLLING MILK PRODUCTION IN THIS COUNTRY IS TO CONTROL COW NUMBERS. THE DIVERSION PROGRAM AND WHOLE HERD BUY-OUT PROGRAM ACCOMPLISHED THIS. WHAT NEXT? WITH PRODUCTION INCREASES APPEARING IN SOME STATES AND REGIONS OF THE COUNTRY WHERE THEY APPARENTLY HAVE NOT GOTTEN THE MESSAGE OR SHOW TOTAL DISREGARD OF THE PROBLEM OF OVER PRODUCTION AT THE EXPENSE OF ALL DAIRY FARMERS.

I WOULD OPPOSE ANY FURTHER ASSESSMENT FOR PROMOTION UNTIL A UNIFIED, CONSOLIDATED NATIONAL PROMOTION PROGRAM IS ACCOMPLISHED. I ALSO OPPOSE ANY ASSESSMENTS FOR ANY FUTURE GOVERNMENT PROGRAM.

REGIONAL DIFFERENCES MUST BE RECOGNIZED IN ANY FUTURE LEGISLATION. ALSO, MARKET WIDE SERVICE PAYMENTS MUST BE RECOGNIZED AND IMPLEMENTED. MUCH DISCUSSION ABOUT BASE OR QUOTA SYSTEMS HAVE TAKEN PLACE. ANY QUOTAS OR BASE SYSTEMS NEED SERIOUS STUDY BEFORE ANY IMPLEMENTATION OR LEGISLATION BECAUSE REGIONAL DIFFERENCES MUST BE ADDRESSED. MAYBE QUOTAS NEED TO BE

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IMPOSED ON STATES AND REGIONS WHERE PURCHASES BY THE FEDERAL GOVERNMENT CONTINUE TO BE EXCESSIVE OR WHERE PRODUCTION SEEMS TO BE INCREASING.

A CAP ON PURCHASES BY THE FEDERAL GOVERNMENT NEEDS TO BE CONSIDERED WITH EXCESS PRODUCTS ABOVE THIS CAP BEING SOLD ON THE OPEN MARKET.

THE ABSENCE OF ANY VIABLE ALTERNATIVE IN ANY PRESENTLY PROPOSED LEGISLATION AND WITH CERTAIN FACTORS AVAILABLE IN THE MARKET PLACE IN THE EASTERN MARKETS (SUCH AS SERVICE CHARGES AND OVER ORDER PRICING) LEADS ME TO MAKE THIS RECOMMENDATION THAT THERE BE NO FURTHER ASSESSMENTS OF ANY KIND AND THAT THE PRESENT LEGISLATION BE GIVEN AN OPPORTUNITY TO WORK.

I AGAIN THANK YOU FOR THIS TIME TO TESTIFY AND COMMEND YOU AND YOUR COLLEAGUES FOR YOUR SUPPORT OF OUR INDUSTRY AND AGRICULTURE ACROSS OUR GREAT NATION.

The Honorable Charles Stenholm, Chairman
Sub-Committee on Livestock, Dairy and Poultry
Congress of the United States
House of Representatives
Washington, D.C. 20513

Mr. Chairman,
Representative Byron,
Other Committee members, Congressmen and staff:

Please allow me to thank you for the opportunity to be here today to offer testimony regarding the Dairy Termination Program.

By way of introduction, my name is Wayne L. Armacost and I am a principal partner in Hickory Hill Farm, Inc. The farm is located in Baltimore County, Maryland, 25 miles north of the City of Baltimore and just west of Interstate 83. Other principals in our farming operation are my two brothers: R. Franklin, III; John Carvel and my father, Raymond Armacost, Jr.

At the height of our dairy operation we maintained a milking herd of 600 Registered Holstein mature cows and 600 head of replacements. Our cropping operation consisted of 500 acres of owned land and an additional 500 acres of rented crop land and pasture. Weather permitting, we raised all forage needs and up to 30% of needed concentrates. The balance of our feed requirements were purchased from local farmers. Protein and minerals were acquired through various channels. Hickory Hill Farm supplied approximately 10 million pounds of milk annually for the Baltimore City fluid market. We also employeed ten full-time and several part-time employees.

Strictly looking at numbers, it is obvious the Dairy Termination Program has been successful. Fourteen thousand less dairy farms and one and one-half million animals that will never generate milk for the U.S. market are hard clad figures that speak for themselves. This is equated to approximately 1.5 billion pounds of milk today and its genetic potential for the future.

It must be remembered, when we are evaluating the Dairy Termination Program, that dairy farmers themselves have paid for approximately 40% of the two billion dollar program.[1] Quite often the public is given the idea, by the media especially, that the tax payers are footing the entire bill.

July 1987 figures noted production below a year ago and even shortages of milk in the east and south-east.[2] These are very favorable figures because approximately 350,000 (23%) dairy cattle still were to be removed as of the July report. Not to mention, that stocks of non-fat dry milk, butter and cheese have all shown dramatic decreases in the past year.[3]

6 mi. W. of Interstate 83 at Md. Rt. 137

Personally, the past ten years have been an emotional roller coaster ride. Drawing on every possible resource in agriculture, and specifically the dairy segment, we made a decision in 1977 to expand. This wasn't predicated on a get-rich-short-term encounter, but with a determined, dedicated hard-work approach within a business that we had expertise.

But in 1980 the "rules of the game" drastically changed. All the long range planning and projecting were no good within an industry that was being controlled more intensely by the short-term "governmental pen". With a large debt load and with the loss of our ability to make any type of projections except that income would continue DOWN and expenses would continue UP, we made the toughest business decision of our lives........to submit a "bid". Within six months, more than 60 years of continual milk production ceased and our entire milking herd headed for slaughter and the majority of our young stock was exported to Ecuador. We now find ourselves searching for a continuing livelihood within a field of agriculture that shows very little promise.

Certainly the bright spot in dairy today is the increase of sales of fluid milk and other dairy products. I'm convinced that the dairymen's committment to advertising is paying off and they are to be commended for that. Other segments of agriculture have watched this program closely and are judging its strengths and weaknesses to see if it could be beneficial to them.

In closing, I believe two important factors must be addressed if we are to expect a healthy dairy industry in the future. First, with approximately 160,000[1] commercial dairies in the country, the industry and its leaders must continue to seek a single harmonized voice. The dairy industry has received what I perceive to be some unjustified criticism, both within and without agriculture because they have been able to go to Washington with a more unified voice. But I'm convinced there are many more steps to climb before perfection is attained.

Secondly, it is imperative that Congress and the agriculture sub-committees objectively concentrate on the long range needs of agriculture. To focus more attention on the short-term benefits of a "cheap food policy" rather than the long-term health of the agriculture/dairy industry may be far more expensive to the consuming public tomorrow than we can begin to imagine today. The "deep pocket theory" or a policy of "economic squeeze out" hardly makes sense at this time when we have had a system that has functioned rather effectively for many years and may now need some adjustment and fine tuning to get it back on track.

I thank you.

Wayne L. Armacost
17011 Pleasant Meadow Road
Upperco, Maryland 21155

1 USDA; Eugene Meyer, Managing Editor, Hoard's Dairyman
2 Hoard's Dairyman Magazine, Aug. 25, 1987 p637
3 Hoard's Dairyman Magazine, Sept. 10, 1987 p685

STATEMENT OF MILLARD CRUM, JR.

Thank you for this opportunity to testify at this hearing. Some of my written text many seem repetitive, but was written earlier for another purpose.

As I understand it, the purpose of this hearing is to evaluate the effectiveness of the DTP and the dairy section of the 1985 Farm Bill.

The promotion feature is the best thing about the bill and consideration probably should be given to increase the amount spent for advertising. Put I would be quick to warn not to make it an automatic increase. You know, consumers only need so much food, and ads for one product may only take' away from another food product, therefore indirectly, one farmer from another farmer. That would be a waste. I think I would rather under advertise. But there are areas where it would be effective.

As to the effectiveness of the Whole Herd Buyout program (WHB), I beleive it was a step in the right direction. It got at the units of production, cows, just many of the wrong ones in my opinion. (Will explain later) The WHB was certainly better than the 50¢ assessment which was used to buy product from the market. Thats like GM using money to buy cars as they roll off the assembly line and then putting them in a parking lot. It was better than the diversion program, which was too short. Too many participants did just that, diverted production.

I feel the WHB also had its shortcomings, some just in the way it was administered. It did not work regionally which is now showing up with milk being hauled into deficit areas. I beleive it was unfair amongst participants. Admittedly costs of production varies, but why would one participants production be worth only $4.00 and anothers worth $22.50/ hundred wght. Also, by not having something on going it fell short. The WHB was very inefficient and this is what I mean when I say it took many of the wrong cows. For instance, if two dairymen have herd averages of 15,000# of milk per cow per year. This means each has cows producing over 15,000# and each has ones producing under 15,000#. Then one of the dairymen is accepted into the WHB. All of his cows were slaughtered including the above average ones while the other dairymen keeps on milking all of his cows, even his below average ones. This is inefficient. I have included as part of my testimony what I consider to be a better way i.e. both dairymen could stay in business, both keep their best producers, both become more efficient. By the

way, slaughtering those good cows is not the same as idling acres. Their production and potential is gone forever, the acre--you just plant again.

Now, I have what I consider one more major flaw in the dairy section of the 1985 farm bill. That is, price cuts and the threat of price cuts are wrong and I feel have even encouraged production. You know, I understand being a farmer, especially a dairyman. I know the hours and the commitment involved. I've been there. I'm still there. When my price is cut my cash flow is cut and I fight back by doing and producing more. Apparently I'm not alone because it is very obvious most farmers, not all but most, have done the same thing. Price cuts will work of course, but it seems like a very unfair, slow, painful way of managing supply. If you don't remember anything else I have said today, please remember this. When you run a farmer out of business you still haven't eleminated his production because in the vast majority of cases his cows and acres are absorbed by neighbors and thus the production is still there to haunt you. Its different than anyother business. So I would urge that cutting the price not be used for supply management. We need a profitable price. We need supply management and the cost of supply management should be part of the cost of doing business.

Several years ago, when we started hearing about surpluses in our milk supply, I gave the problem a lot of thought. In as much as dairy farming was my way of life I felt duty bound to understand the problem (overproduction/underconsuption) and offer my ideas toward a solution.

It didn't take long for me to recognize the heart of the growing surplus problem---there were too many cows being milked. Further, research showed the problem would get worse because of an extremely high ratio of heifers to milk cows. Traditionally the replacement ratio had been approximately 35:100 (heifers to milk cows). In the early 1980's that ratio was approximately 48:100. I understood the problem and recognized what had to be done to correct it: Reduce the number of milk cows and replacement heifers in the national dairy herd. My current focus is only on culling milk cows.

Several plans have been developed to solve the problem. The Milk Diversion Plan was adopted. It was a windfall for some and sour grapes for others. The fifteen month MDP did not solve

our surplus problem, indeed, it became a time to get cows in line for freshening on or after April 1st (1984). Later the Whole Herd Buy-out was developed and put into action on April 1, 1986 and will run thru August, 1987. Forecasters are saying that surpluses will continue unless we adopt a milk supply management program.

My idea was designed to do more than the whole herd buy-out so far as animal reduction is concerned and once in place it could serve as an on-going supply management program (with minor variations).

Basically my plan is nothing more than selling cull cows. However, I would speed up the sale of cull cows thru an incentive. The incentive would be: Matching dollars received for cull cows for meat price with dollars from a fund. The fund would be created and maintained by an assessment on current milk production.

The mechanics of my program would work this way:

Each dairyman would register with his local ASCS office and reveal his herd size and establish an annual cull rate (from his records, DHIA records or be assigned a cull rate by the ASCS Committee).

The cull rate for each herd is a key factor; in that it makes the program self policing and also workable on a regional basis. For example: A 100 cow herd with a 25% cull rate would receive matching dollars for all over 25 cows culled for meat during a year. If the dairyman does not attain his cull rate for the year he could be penalized. This polices the program between farmers and thus would do the same regionally (this would be in keeping with the dairy industry's desire to have a control program that would be regionally responsive). This is the framework of my plan. Of course there are more details. I'd be glad to discuss them if you are interested.

Advantages to be derived

Here are a few of the advantages of my plan:

1. It can be based on supply/demand and be implemented as needed by agreement of the National Dairy Board and the Commodity Credit Corporation.
2. Very simple. Just speed up an already familiar process.. culling cows.
3. Very fair. No out-guessing or bidding...just get whatever cows are worth (on meat market) on an individual basis plus matching funds

4. Very efficient. Each dairyman can get rid of low"producers.
5. Each dairyman can participate at any level he desires..even whole herd elimination.
6. Costs the government nothing except for a little additional administrative time at local ASCS offices.
7. Costs to producers would be the uniform assessment to create and maintain the fund from which matching dollars would come. Example: An annual assessment rate of $.35 per cwt would create a fund large enough to pay matching dollars for one million cull cows per year (over current cull rate).
8. No quotas. The closest my plan gets to a quota is that all dairy farmers must cull at his normal cull rate or could be penalized. This seems to be fair in a over produced market.
9. Keeps the cycle (heifers) at a minimum and would make for a more even supply and easy supply management.
10. Virtually self regulating. So far as the influx of meat cows on the market...small herds qualify first and so on.
11. Probably would let some dairymen stay in business...by allowing all dairy farmers to help correct the problem (by having an incentive for heavy culling) instead of constantly forcing dairymen out of business.

Other thoughts on our overproduction

1. We definitely need supply management of some sort. I prefer the above method.
2. Cutting the price has been the wrong approach to correcting the problem (reducing the support price), at least under the current situation. I know this is contrary thinking, but to me it (price reductions) has only encouraged more milk production. In all fairness, there were some reasons for price adjustments at the farm level due to lower operating costs such as: feed, fuel, interest, etc., but not becauae of overproduction. I admit that lowering the price will eventually work, but it is a slow death and causes a whole industry to suffer unequitably. We are just plain dumb to allow this to happen.
3. The growth hormone, if successful would knock all of this out of kelter.
4. Quotas are not the answer in my opinion, unless a dollar value can be kept out of the picture. But, all milk bases or quotas that I have heard of seem to get a value. This, I believe creates a false investment that must, some place along the line, show a return.

U.S. HOUSE OF REPRESENTATIVES

AGRICULTURAL SUBCOMMITTEE HEARING

on the

DAIRY HERD BUY-OUT PROGRAM

2 November 1987

Westminster, Maryland

I am Jack Matthews, national affairs director for Maryland Farm Bureau. Farm Bureau appreciates the opportunity to present a statement at this hearing. We especially wish to thank Representative Byron for initiating this hearing, and for her continued support of Maryland agriculture.

The Dairy Termination Program was a bold move to reduce milk production by approximately 12 billion pounds, by eliminating approximately 10 percent of the dairy herds in the nation. However, this reduction in dairy animals has only reduced milk production by about five billion pounds ... not the 12 billion that was anticipated.

The dairy herd buyout program decreased production for a brief period, but indicators are now in place for a return to the need for heavy CCC purchases. Farm Bureau policy favors "a system where the price support level would be automatically adjusted according to the amount of net dairy products purchased by the federal government."

Many dairymen who did not terminate their herd have added more cows. Replacements per 100 milk cows on June 1 were up from the previous year. Production per cow continues to trend upward. Talk of quotas has encouraged many to build their "base". Relatively low feed prices and a favorable milk-feed price ratio have spurred production.

The supply-demand balance seems favorable for the short- run, but if the nation's dairy resources continue to increase, the industry could soon be back in that surplus mode.

To add to this scenario, bovine somatotropin is now being tested by several companies who wish to obtain FDA approval to market the product. Many believe BST could be on the market in 1990, and this could further contribute to an increase in milk production.

Although the herd buy-out program appeared to work temporarily, it does not show conclusive signs of solving the long-term dairy industry problem. We believe Farm Bureau's policy of tying prices to the market-place would render a more permanent solution.

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